STATUS OF THE UNITED STATES POSTAL SERVICE

JOINT HEARINGS

BEFORE THE

SUBCOMMITTEE ON
POSTAL OPERATIONS AND SERVICES

AND THE

SUBCOMMITTEE ON
POSTAL PERSONNEL AND MODERNIZATION

OF THE

COMMITTEE ON
POST OFFICE AND CIVIL SERVICE
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

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STATUS OF THE U.S. POSTAL SERVICE

WEDNESDAY, MARCH 8, 1989

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON POSTAL OPERATIONS AND SERVICES AND SUBCOMMITTEE ON POSTAL PERSONNEL AND MODERNIZATION, COMMITTEE ON POST OFFICE AND CIVIL SERVICE,

Washington, DC.

The subcommittees met jointly, pursuant to notice, at 10:20 a.m., in room 311, Cannon House Office Building, Hon. Mickey Leland (chairman of the subcommittee on Postal Operations and Services) and Hon. Frank McCloskey (chairman of the Postal Personnel and Modernization Subcommittee) presiding.

Mr. MCCLOSKEY. Good morning.

The Subcommittee on Postal Operations and Services and the Subcommittee on Postal Personnel and Modernization will come to order.

Today's hearing concerns the operations of the U.S. Postal Service. I want to thank the Board of Governors and Postmaster General Tony Frank for being with us today. We want to welcome all of you, particularly the new Chairman of the Board of Governors, Robert Setrakian, and the three newest Board members, Governor Tirso del Junco, Governor Susan Alvarado, and Governor Bert Mackie.

Mr. Frank, I am pleased to hear that the Postal Service was moving ahead with its capital modernization program after last year's budgetary setback, and that morale is improving. Later this spring, I will be conducting hearings on the Postal Service's personnel practices, and we can discuss in depth the level of morale among workers.

My major concern again this year is the tenuous situation that the Postal Service may find itself in if legislation to take the Postal Service off budget is not passed. My good friends and colleagues, Chairman Bill Ford who has just joined us, and Chairman Mickey Leland who will be with us soon, will be working together to bring the off-budget bill before the House of Representatives, as will Mr. Horton. The return to off-budget status has widespread bipartisan support in the House, and we will be working again for an overwhelming vote in order to ensure an override of any veto.

The present budget proposals for fiscal year 1990 again attack the U.S. Postal Service and may threaten the future and current performance of the Postal Service. The Postal Service provisions of the Reagan budget, which I understand President Bush's budget does not alter, recommends reducing fiscal year 1990 Postal Service capital improvements by $823 million. This could indefinitely delay

further construction necessary to build new Post Offices and modernize old facilities.

I am concerned that any savings in capital commitments are mere illusions. Although money may be saved today, the general public will have to pay in the future through the Postal Service's decreasing effectiveness due to outdated facilities in high-volume areas. In addition, these proposals would adversely impact local economies by effectively creating a disincentive for economic growth.

The Administration's budget also recommends contracting out retail operations now provided by some 7,000 small rural Post Offices. This simply means that the Post Offices in some 7,000 small rural communities will close. In many of these communities, the Post Office is the heart of the community. It is where people come to obtain news about area residents, and it is almost considered the de facto local seat of government.

My Congressional District, the Eighth District of Indiana, is comprised of many such rural areas. My constituents could lose community identities and be deprived of many community services should their Post Offices be closed.

In addition to the serious social impact which would accompany the closing of these offices, there would be no guarantee of continued effective service. Who would be accountable if the contractor did not provide daily service, and why should rural areas be singled out?

Prompt delivery of mail is currently a national goal of the Postal Service. By differentiating between rural and urban areas, this budget proposal threatens to establish two levels of service based solely on demographics and profitability. I believe that this proposal runs counter to the mission of the Postal Service, and I believe that it will receive very little Congressional support.

I look forward to discussing these concerns with our witnesses today, and I would like now to recognize our distinguished chairman, Mr. Ford.

Mr. FORD. Thank you, Mr. Chairman.

I want to thank you for going forward, you and Chairman Leland, with these hearings. I will make my apologies to the Postmaster General and the Board.

In the way things work around here, we have days and days when we can make our own calendar, and then suddenly everything happens at once.

As I talked to you, my colleague who normally sits in this chair, Mr. Clay, is starting the consideration of his family medical leave bill in the Education and Labor Committee, and I am the ranking member of the full committee and the ranking member of his subcommittee.

The opponents of this bill have notified us that they have 50 amendments, so I cannot enjoy the opportunity to be here and hear your testimony.

I did have the opportunity for an informal visit to Mr. Setrakian, and I have expressed my concerns about the budget. I have expressed them to the Postmaster's people.

If you look at the budget and the rationale and the breakdown of it, the first thing that will jump off the pages at you, before you

even look at the numbers, is this. It is the most massive attempt at micromanaging the Post Office through the manipulation of numbers that has ever occurred since Richard Nixon asked us to free the Post Office from politics.

Now, you talk about politics—I will show you politics in that budget from one end to the other. You can play games with rural versus urban, the big city against the small city, and one section of the country against the other.

Where do we need the new Post Offices and the modernizations? In the old parts of the country which are losing population? No, we need them where the new population is going.

We will have regional fights breaking out over this. If that budget were somehow to slip through this Congress, we would do two things, it seems to me—at least two things that I could predict.

The first one is that we would have set a precedent that the Postal Reorganization Act, provided that the new U.S. Postal Service, consisting of the Postmaster General and Postal Board of Governors would make judgments as to wages to be paid, service to be rendered, investments to be made.

Now, there are not very many of us left here who were here before the Postal corporation went into existence, so we have to run around putting out fires. We have people saying, "Well, what is wrong? Why don't we have it the way it was?"

Well, they did not have the benefit of sitting in this room and trying to legislate rates, and legislate pay, and legislate service, and legislate the building of Post Offices, and all the rest of it, as a constant battle of nothing but political patronage and nonsense.

What would be number one in my view, as a bad result if this budget were adopted, is that it breaks all the barriers. For the first time since the corporation was created, we have an administration suggesting that we politically set the pay for the employees of the Post Office instead of the way it is being done under the direction of Postal management.

The second thing that will be accomplished if this budget were to slip through is that on top of what we have already done to the public, after the 1987 budget fiasco, the public confidence in the Postal Service will be eroded irreparably for many more years into the future.

We have been hurt—the Postal Service—when I say "we", we Americans have been hurt. What hurts our Postal Service hurts all of us—by service cutback, the slowing down of the mail by getting rid of the Sunday sorting, and the other things that were forced upon management by Congress meddling around where it did not belong in 1987.

And now, the new budget wants to continue that, and it will continue and give you another year of providing people answers in the negative instead of action and service, and I do not think that the American people deserve that kind of treatment. I do not think that the committed people in the United States Postal Service deserve to be put in that position.

All of you should know—and I am going to quit and go on to my other duties—that this committee has already unanimously—every member from both political parties— signed off on our budget sub-

mission, which says categorically "no" to every single item in the Administration's budget affecting the Postal Service.

There was no argument about it. The feeling is very strong on this committee, on both sides of the aisle. This is not a partisan issue in any way at all. The feeling is very strong on both sides of the committee that we are going to stand and say "Enough."

You proved to us two years ago—Congress and the President proved to us that Congress and the President meddling in the day to day operations of the Post Office does not work, and they proved that what we did in 1970 was the right thing. This is no time to be turning back.

If we are going to turn back the clock and repeal the Postal Reorganization Act, and turn it into a political arm of the Government, the way it was before—I will consider that. But let us be honest about it, and do it. Let us not go through the back door, and turn it once again into a political patronage machine.

If we are going to do it, let us have a President —whoever it might be—stand up and say:

> I want to take it back into the White House and run it the way it was in the good old days. Let me appoint the Postmaster, let me appoint everybody and make all the decisions, and use that department as the number one political arm of the White House, as it was traditionally used from the beginning of the country.

I do not think any President is willing to do that. I do not think that the American people would stand for it, and I do not think that the Congress would vote for that.

If they will not vote for that, then they ought to support other than taking the Post Office off budget, and remove the temptation for this or any future Administration to play games with "let's play Post Office" in the budget every time they write a budget, because we happen to be on budget for bookkeeping purposes.

Thank you, Mr. Chairman, for letting me say that. I will close by telling you that I appreciate the kind of cooperation that as chairman of the full committee, I have had from the Postmaster General and his people, and from this Board for a number of years now.

Even when you now have reached the stage where I do not see a perceptible twinge when you make a change in Chairman —I have a great deal of confidence in the new Chairman. I have had a chance to get to know him over the last few years. I have confidence in him, and he is sitting next to one of the greatest Chairmen we ever had at any time.

I think that you ought to be pleased to be compared to him in any company in which you might find yourself— especially if you go out to Missouri as I did. It helps to be able to have Setrakian. It will get you out of town all right.

Mr. McCLOSKEY. Thank you, Congressman.

Thank you for your wisdom.

Mr. Horton?

Mr. HORTON. Thank you, Mr. Chairman.

I want to join with the chairman of the full committee and Chairman McCloskey in the remarks that they have made with regard to the Postal Service, the Board of Governors and the Postmaster General.

I certainly want to underscore, as one of the ranking members on the Republican side, the need for moving the Postal Service off budget.

I have said this many times publicly and in this hearing room, but a number of us sat on the conference about a year and a half ago, when the summit meeting had decreed that approximately $1.7 billion would have to come out of the Postal Service. As a result, we had our hands tied. Although we made some compromise, we did have to take a hit on the Postal Service. I think that caused irreparable damage.

I think the highest priority that we have in this Congress is to take the Postal Service off budget, and the quicker we do it, the better.

As you well know, we passed the bill with more than two-thirds in the House, and it went over to the Senate, languished there and died when the 100th Congress adjourned.

I think that it is imperative that we get the bill out of this committee quickly and that we pass it on the floor of the House. We must then get the Senate to act on it this year, so that we can have an opportunity, to override a veto if necessary, and move it off budget. It must not count in these out years, which are going to be very, very critical.

One of the things that they did was to permit the lump sum payment, to be divided so that 60 percent would be paid in the first year, which was 1988, and then in 1989 they would receive the second 40 percent, and interest is to be paid on that 40 percent.

Now, how you are going to save money on that, I have no way of knowing. It just does not make sense. It is blue smoke, and that is no way to do the budget, and it is no way to handle the Postal Service.

Well, Mr. Chairman, I consider it a pleasure to join with you and Chairman Mickey Leland of the Postal Operations subcommittee, on which I serve as the ranking member, in these joint oversight hearings.

I would like to welcome the Postmaster General, Anthony Frank, who I think is doing an outstanding job. I am very pleased with the job that he is doing, and the leadership that he is giving. I am also pleased with the Board of Governors, because I think we have one of the best Boards of Governors that I have experienced since I have been on this committee.

You are to be commended for the work that you are doing.

I also want to welcome the new Chairman, Robert Setrakian. I congratulate you. As Chairman Ford said, you are following in some extremely capable footsteps.

John Griesemer did an excellent job in his Chairmanship of the Board of Governors, and I want to join with the other members of this committee on congratulating you, John, on the fine leadership that you gave.

Mr. GRIESEMER. Thank you, sir.

Mr. HORTON. I understand you wanted to relinquish that, and I do not think you could have elected a person who was more dedicated and willing to serve and who I think will have the ability and dedication to follow in your footsteps.

Bob, we congratulate you on your leadership as Chairman of the Board of Governors.

Mr. SETRAKIAN. Thank you.

Mr. HORTON. Last year at this time, the Postal Service was increasing the price of stamps while instituting cutbacks in window service hours in Post Offices across the nation.

At that time, the Postal Service was playing right into the hands of those who would advocate privatization.

The Postal Service has turned most of that around, but it is still suffering some of the effects of the hit that it took in the budget reconciliation act of 1987.

I believe the best way to prevent privatization of the Postal Service is to provide better service. The American people demand effective, efficient delivery of the mail. If the Postal Service allows the service that it provides to deteriorate, then the clamor for privatization will grow, and will in turn push us closer to repeal of the private express statutes.

What I am concerned about is that we will not actually repeal it. We will wake up one morning, if we move in this privatization process, and all of a sudden we will not have the Postal Service, and we will not have to repeal it. It will just be gone.

It is like Humpty Dumpty, as I have said many times. You cannot put it back together, once it is broken. Take a good look at the telephone service, and you know what I am talking about.

Well, it is not broken, and we do not want to fix it. I think the Postal Service is doing an outstanding job, and privatization is the worst thing that could happen to it. I do not want to slip into it, but we will slip into it if we do not make an efficient, effective operation, and that is why I think it is so important not to have this outside influence of this on budget problems.

That is one way that you can be hamstrung at the outset, and not be able to accomplish what you want to do, and then ultimately end up with the privatization.

I am one of the strongest supporters of the Postal Service as an institution, and one of the strongest supporters of the hardworking, dedicated employees of the Postal Service.

I am also one of the originators of the legislation to move the Postal Service off budget, and as has already been said, all of our committee members on both sides of the aisle have signed on to it.

As I understand it, the latest count is about 174. We want more than that—we want 218, at least. I would like to get about 300 cosponsors on it.

Mr. Ford, Leland, McCloskey, and myself have all made this a priority of the 101st Congress. The key to getting this bill into action is to be sure that the Senate does not allow it to languish, and that they pass it.

While I am a strong supporter of the Postal Service, I am also quick to point out problems that I find with the operation of the organization.

I have been and will continue to be dissatisfied with the three-year cycle of rate increases that the Postal Service recommends and that is approved by the Postal Rates Commission.

I think if we could arrive at some point where we could actually reduce the price of the stamp, Tony, by just one cent, it would

really help us. It would be a big boom, I think, to the Postal Service. I know that this is a hard thing to anticipate, but by gosh, if we could do it, it would really be a big step forward.

I am also concerned about the growing dissatisfaction among advertisers, whose businesses depend on effective, efficient delivery of third-class mail. The Postal Service freely admits that they are experiencing a problem with providing prompt delivery of the third class mail.

By not adequately responding to the concerns of these mailers, the Postal Service is again adding fuel to the fire of privatization.

Advertisers are becoming more vocal about their desire to see at least a limited repeal of the Private Express Act. I am adamantly opposed, of course, as I have indicated, to the repeal of the Private Express Statute. But by not making and providing adequate service, the Postal Service is making my job and the jobs of your other good friends on the Hill that much harder.

The Board of Governors and the Postal Service will do their best to meet this challenge, and I am sure that we in the Congress will do our part to inform the American people of the hazards inherent in privatization.

Once again, I want to welcome the Board and the Postmaster General, and I want to indicate my willingness to work with you. I am sure that this committee will want to work with you to make the Postal Service an even better organization.

Thank you, Mr. Chairman.

Mr. McCLOSKEY. Thank you, Mr. Horton, for your fine statement and your continuing leadership.

Mr. Gilman?

Mr. GILMAN. Thank you, Mr. Chairman.

I, too, want to join my colleagues in welcoming Postmaster General Frank before our committee, and the Chairman of the Board of Governors, Robert Setrakian, as well as the newest members of the Board, Susan Alvarado, Tirso del Junco, and Bert Mackie.

We welcome you before the committee, and we look forward to working with you.

I want to congratulate the Postmaster General as he completes his first year in office. It was a very successful year, and we hope that he continues for many more years to come.

First, permit me to express my willingness as the new ranking member of the committee to listen to and work with the Postal Service Board of Governors and with the Postmaster General to endeavor to enhance the operation, perception and overall success of the United States Postal Service, a service that we are all quite proud of.

We all recognize that the Postal Service still has a number of important problems, but as we look back over the past decade, we can see that the Postal Service is in better shape now than at any time in recent memory.

I believe that many of the problems encountered by the Postal Service are a direct result of being a part of the Federal budget. That is why a number of us are co-sponsors of H.R. 982 to move the Postal Service off budget.

I am optimistic that we will get that legislation before the President during the first session of this 101st Congress.

The Postal Service, as we all know, is the only Federal Government entity that touches most Americans every day. It is somewhat like the Congressmen and Congresswomen who are out there on the battlefield all the time—we come into contact continually with the public and hear their complaints daily, and so, too, do our Postal representatives.

The enormity of the task that faces the Postal Service sometimes is quite difficult for the public to perceive. For example, in fiscal year 1989, it is estimated that the Postal Service is going to process over 160 billion pieces of mail. In effect, it is one of the largest employers in the Federal Government, employing over 800,000 individuals.

I daresay that I can understand why Postmaster General Frank is getting quite a few blond hairs as he goes on in this endeavor.

Mr. Chairman, as an ex officio member of the subcommittee, I want to thank you for the opportunity to welcome the Board and to welcome the Postmaster General before our committee.

We look forward to working closely with both of these entities in order to improve service. Thank you.

Mr. MCCLOSKEY. Thank you very much, Mr. Gilman.

Why don't we proceed now with an opening statement and introduction of the Board. Mr. Setrakian, it is good to see you again.

STATEMENT OF HON. ROBERT SETRAKIAN, U.S. POSTAL SERVICE BOARD OF GOVERNORS

Mr. SETRAKIAN. Thank you very much, Chairman McCloskey, Congressman Horton, Congressman Gilman.

I would first like to just say that I am in total concurrence with all of the remarks of Chairman Ford, Congressman Horton and Congressman Gilman, and I think that it is such a significance that your entire committee has unanimity in terms of the direction of the Postal Service for which I am most grateful.

It is a pleasure to be here today, particularly as chairman of what I consider the finest Board of Governors since my association three years ago.

I would like to take a moment to introduce the members to you, starting at my far left.

Governor Tirso del Junco, from Pasadena, California.

Governor Ira Hall, from Stamford, Connecticut.

Former chairman John Griesemer, from Springfield, Missouri.

And, appropriately on my right, senior member and vice-chairman John L. Ryan, from Indianapolis, Indiana.

Governor Susan E. Alvarado, from Alexandria, Virginia.

Our newest member is Bert H. Mackie, from Enid, Oklahoma.

Regrettably, Governors Norma Pace and Crocker Nevin could not be here with us today. Governor Pace had a slight medical problem, and Governor Nevin unfortunately had a meeting of long standing which precluded his being here subsequent to our meeting yesterday.

Each Governor has brought to this Board a special expertise and independence which I believe has enhanced its ability to perform the duties mandated by Congress.

By law, the Governors of the Postal Service are chosen to represent the public interest generally. Your committee and your support and your concerns are vitally important to us as a Board, and to the Postal Service as a public institution.

We especially appreciate the leadership which members of this committee have continued to provide in working to preserve the interests of the nation's Postal system through very difficult past times.

As a Board of Governors, our job is not to manage the Postal Service, but to monitor and direct achievement of the policies which the Congress has established for it.

Our foremost duty, I believe, is the selection of a Postmaster General, and I am certain that I speak for the entire Board in stating that the Postal Service is fortunate to have Anthony M. Frank as the 69th Postmaster General, who, as Congressman Gilman mentioned, is celebrating his first year in office this week.

I share and support his determination to move this organization forward through his three point program—to stretch out the rate cycle, improve employee relations, and provide even better service for the American people, to improve a Postal Service which is still the largest, most reliable and the cheapest mail system in the entire world.

In response to any questions that you may have today, gentlemen, each Governor will be speaking independently today as to their own views for the best interest of the Postal Service and its customers.

Personally, I believe that the United States is very well served by the Postal System which has evolved through the years as a successful public institution, reaching into every community to serve the population at a fair and reasonable price.

We are all happy to be with you here today, and we would be pleased to respond to any of your questions.

Thank you, Mr. Chairman.

Mr. McCLOSKEY. Thank you, Mr. Setrakian. I also wish you the best in your new post and thank Mr. Griesemer for all of his outstanding service.

Would anyone else have any opening observations or comments that they would want to make before we get into any detailed, follow-up questions?

Mr. SETRAKIAN. Apparently not, Mr. Chairman.

Mr. McCLOSKEY. All right, then.

Mr. Setrakian, could you give your opinion as to the necessity of the passage of the off-budget legislation, and just what this means five or ten years down the road, particularly as to capital expansion and efficiency?

Mr. SETRAKIAN. In my opinion, it is the most critical area that the Postal Service is faced with today.

Under the present structure, capital expenditures that are made by the Postal Service on an on-budget basis become a cash item. On an annualized basis, what with the capital expenditures that are necessary to maintain the facility program that are underway, we would be in a negative position.

As an example, this coming year, we will invest over $2 billion. On an on-budget basis, we cannot set up our accounting system in

order to depreciate these investments over the normal life of the investment.

Being able to operate within the structure of the postal system will free us from the constant struggle between the postal system and outside pressures. As Congressman Ford stated, the potential intrusion of a system that has originally been set up as a separate entity is a concern.

Mr. McCLOSKEY. *I have talked to you previously as to concerns* about pay and retention of top level supervisors and postmasters. Quite frankly, there has been a minor exodus of key staffers leaving the Hill, giving the recent pay raise resolution or irresolution, as the case may be.

Can you comment? I will be asking Mr. Frank about this, also, in his soon-to-be-forthcoming opening statement. What are you facing now in key management personnel?

Mr. SETRAKIAN. I am especially pleased, Mr. Chairman, that you have asked that question.

It is absolutely critical, in my opinion, that we develop relief during the next critical period of time to overcome the problem of losing key management personnel within the Postal Service.

I am aware, of course, that it is not just the Postal Service that is having these difficulties. I have heard of key personnel on the Hill that are—probably the word "defecting" is overstating it—going to the private sector, and rightfully so, what with the compensation compression that is taking place.

As you and I have mentioned, the Postal Service has recently lost one of its key people in New York, a man who has not only had a high regard for the Postal Service, but wanted to make it a lifetime career.

But because of the compensation constraints, he has had to leave. I think that we are going to have more of this. In terms of our entire structure, we are a $40 billion company with 800,000 employees.

We have 40 key officers in the organization and 75 General Managers/Postmaster that are heading our field divisions.

Just to give you an example, in the case of our regional postmasters, who are making $95,000 per annum—they are in effect running a corporate operation with revenues and assets in excess of $7 billion.

In the private sector, a man who has that kind of a responsibility would be earning between three and five times what he is earning here.

I do not know what the answer is to this, Mr. Chairman, but it is something that is of such significant importance for the maintenance of this operation that I hope Congress will heed our remarks, as well as those of the principals in NASA, National Institute of Health, and other areas where they are having the same problem.

Mr. McCLOSKEY. It seems to me that there are many cases in which salary opportunities are on the spot. It is not at all uncommon to be making $80,000 and to go off to three or three-and-a-half times that in the private sector, and I think that is one of the things that the Postal Service quite definitely is facing right now.

There are so many things to talk about, but I want to yield to Mr. Myers and Mr. Horton in a minute. I have just one question,

however, as to the Administration's budget proposal. One of the more interesting things to me, if not the most dramatic, is proposal number three to create a separate subclass for Government mail and charge reduced rates for such mail.

Would you or any other Board member have a comment on that?

Mr. SETRAKIAN. Well, I am sure that others would like to comment.

The few remarks that I would like to make in that regard—we have a system that has been operating well since the reorganization act, namely, rates being established by the Postal Rates Commission.

If such a Pandora's Box were opened, there would be chaos within all of the rate structures of the Postal Service, in my opinion.

Mr. MCCLOSKEY. I notice that Mr. Ryan, my Hoosier colleague, lit up at that question.

John?

Mr. RYAN. Yes, I would like to broaden that just a little bit, if I might, and get into this whole business of micromanagement.

I think that it is terribly important. As you all know, I speak as the fox in the henhouse, because I personally, in my personal belief, believe that the Private Express Statutes are an impediment to the Postal Service and to the progress of the postal system.

But quite aside from that, first of all, the idea of setting up a rate that is so totally at variance with the principles, the legislative history, the study behind the legislative history, and everything that I have seen in the 15 or 16 years that I have been associated with the Postal Service, is kind of mind-boggling.

I kind of get the feeling that they do not know over at OMB, really, what the Postal Service is. They either do not understand the difference between accrual accounting and cash accounting, or if they do understand the difference, they do not know that we are on accrual accounting.

There are ways that you can meld them together, but it is not the way that it is done here. So, I think that the information that we have gotten, or certainly that which I have gotten, is confused. It is almost impossible to figure out what you can do about it. They are going to tell you what you are going to do about it, apparently, or somebody is.

Somewhere—perhaps the Congress. But all I am saying is that although I think going off-budget is obviously the solution to these problems, as current problems, I very much would like to see us off-budget again, where we properly belong.

Mr. MCCLOSKEY. Thank you very much, Mr. Ryan.

I note that Mr. Myers is here, and I think he has a very, very busy schedule these days.

John, would you care to make a statement or ask questions?

Mr. MYERS. Well, thank you, Mr. Chairman.

I apologize to my colleagues and the members of the board of the Postal Service, as well as Postmaster General Frank, for first getting here late, and then having to leave right away.

To my senior members of this committee—I apologize for taking this time. We do have to go back to the committee at 11:00.

It was once said that member service here on Capitol Hill is measured by the committees that you serve on. That was before the standard official conduct was formed. If it is, I do not have a very high standing, because that is what is taking most of my time these days. I have to go back very soon and I do apologize.

But I am pleased to be here. I have many, many questions that I would like to ask, but I will not take the time of the committee at this point, but I will put them in the record, so thank you, Mr. Chairman.

You perform a very, very vital service, as we all know. We all depend upon the mail service, and take it for granted. It has always been there, in our memory, and we think that it always will be, and at a cheap price.

When we look at the value of the dollar, we still get a lot of bang for the buck with the Postal Service. I know that we all complain about it. I sent a letter last week that took a week to get to Indiana—I could have walked out there. But those things do happen, and I did not make any complaint about it.

My mail did not get delivered yesterday, and I did not complain about that—yet.

Mr. MCCLOSKEY. The Postmaster General is here, John. [Laughter.]

Mr. MYERS. Well, I will tell you why—I left my car parked too close to my mailbox, and they did not deliver the mail—he did not get out of his Jeep and walk over. I guess that must be a rule—if you can't get out of your Jeepster and walk over to the box—but anywhere, that is neither here nor there. [Laughter.]

Mr. MYERS. I will remember it at Christmastime. [Laughter.]

Mr. MCCLOSKEY. Would that be considered micromanaging? [Laughter.]

Mr. MYERS. We do not know what that is, I guess.

Thank you very much.

Mr. MCCLOSKEY. Thank you, Mr. Myers.

I note that Chairman Leland is here.

Mr. Chairman?

Mr. LELAND. Thank you, Mr. Chairman, and let me apologize for my tardiness. I just came from the budget task force where I had to present testimony on behalf of legislation dealing with infant mortality.

If it were anything less compelling, I would have been here earlier. I truly apologize.

Mr. Chairman, with your consent and that of the committee, I would like to submit for the record my opening statement.

Mr. MCCLOSKEY. Without objection we will also include a statement from Mr. Sawyer.

[The prepared statements follow:]

OPENING REMARKS BY CHAIRMAN LELAND

Good morning and welcome to this joint hearing of the Subcommittees on Postal Operations and Services and Postal Personnel and Modernization. Today's hearing is the first of two in which we conduct our annual assessment of the status of our nation's postal system.

Our Postmaster General and several of the members of the Board of Governors have served for only about a year, and other members of the Board have just been appointed. I believe this situation provides us with the opportunity to inject some

badly needed fresh ideas and approaches to dealing with the problems of our postal system.

I am pleased and encouraged by the agenda that Postmaster General Frank has set for the Postal Service. That agenda is to:

Expand the interval between rate adjustments;

Provide the best possible service to the American people;

Improve management's working relationship with employees.

As he said in the annual report of the Postal Service for fiscal year 1988, "this agenda is essential, realistic and workable." He added however, "it will require changing some deeply held attitudes within the Postal Service, and it will not be achieved overnight."

I want to emphasize to the Board of Governors that I couldn't agree more with the Postmaster General on these points, and I want to urge you to do everything you can to help him implement this agenda.

The time is long overdue for the Postal Service to finally get its priorities straight, and I commend the Postmaster General for starting that process.

Despite all the talk of privatization of the Postal Service, I have come to firmly believe that the only serious threat to our universal postal system, is from within. When the needs and wishes of the public are ignored or not met in order to meet the needs of the Postal Service, the threat grows. When nineteenth century management techniques cause low employee morale resulting in unmotivated workers, the threat grows. When the Postal Service insists on asking for higher rates when they don't even know what their labor expenses will be, the threat grows. When an unnecessary 9 digit ZIP Code is forced on the public, the threat grows. When the Postal Service continues to waste time and money on services the public does not need or that the private sector is adequately providing, the threat grows. When spending reductions are required and service to the public is cut while headquarters spending is allowed to increase and unnecessary contracts are continued, the threat grows.

When the American people reach the point where they say, "Why not give the private sector a shot, since the service we're getting isn't any good". Then the battle to preserve our universal system will have been lost. There are many out there who have already reached that point. I know because I h ar from them every day.

However, it is clear that the majority of the American people are still satisfied with their mail service. Hopefully, this new agenda will ensure that the Postal Service can continue to not only satisfy, but to improve service.

STATEMENT OF CONGRESSMAN THOMAS C. SAWYER, RANKING MAJORITY MEMBER, SUBCOMMITTEE ON POSTAL PERSONNEL AND MODERNIZATION

Mr. Chairman, as the new Ranking Majority Member of the Subcommittee on Postal Personnel and Modernization, I am pleased to participate in this first joint oversight hearing of the 101st Congress, to review the operations of the United States Postal Service and the Administration's fiscal year 1990 budget proposals affecting the Postal Service.

Without a doubt, this country's universal mail delivery system is the largest undertaking of the Federal Government on a daily basis. In fiscal year 1988, the U.S. Postal Service moved 160.5 billion pieces of mail, an increase of 2.3% over the previous year.

"Bigger is not always better", but in the case of the U.S.P.S., the ever increasing volume of mail indicates the continued reliance of our population on written forms of communication. For many individuals, the mail represents the only affordable means of staying in touch with relatives and friends. For many businesses and nonprofit organizations, the mail system provides the only affordable means of reaching customers or donors.

The idea that some form of mail service should be available to all Americans was important enough for the Founding Fathers to include in the U.S. Constitution, where the responsibility for establishing postal facilities and routes was given to the Legislative Branch of government.

Today, use of the postal system remains universally accessible due to the ability of the U.S.P.S. to move first class mail between any two points in the country for the same low price of a stamp.

The vital importance of our universal postal system as a primary means of communication should not be underestimated. I am convinced that efforts to privatize the Postal Service will jeopardize the affordability of the mail for many communi-

ties, rural and urban, which would not represent profitable service areas for private carriers.

As we carry out our statutory responsibility to review annually the operations of the U.S.P.S., we must ensure that mail service remains not only affordable, but efficient and convenient, as well. The delivery of first class mail remains the sole responsibility of government, and the public has the right to expect first class service.

The U.S. Postal Service is also the nation's largest civilian employer, with over 760,000 employees. It is these dedicated individuals—postmasters and postal supervisors, letter carriers, clerks and mail handlers—who must ensure that national performance standards for delivery are met. To put it simply, they must keep the customers satisfied.

Many postal employees are career civil servants who spend their entire working lives with the U.S.P.S. We should encourage career government service by ensuring fair working conditions, including pay scales and benefit packages which keep up with the cost of living, opportunities for advancement, and safe facilities.

As a quasi-government agency, the U.S. Postal Service finds itself subject to the financial pressures experienced by both Executive Branch agencies and private industry.

The increasing demands of the mailing public call for capital expenditures in areas such as new post offices and improved automated equipment. The rising cost-of-living calls for increased wages and improved benefits for the postal workforce. It is a daily struggle for the Postal Service to break even.

I hope our joint oversight hearings will help us determine how, in these times of fiscal restraint, the U.S. Postal Service can meet its obligations both to the mailing public and its own employees. Clearly, it will take innovative programs and solutions, cooperation between labor and management, foresightful expenditures, and, yes, sacrifice, to ensure the continued viability of the universal postal system.

Over the next few days, I look forward to hearing from Postmaster General Anthony Frank, the members of the Board of Governors, representatives of postal unions and management organizations, business and non-profit mailers, and the Postal Rate Commission, on how we will meet the challenge.

Mr. LELAND. Lady and gentlemen, let me ask what are your general impressions of the Reagan and Bush budget proposals for the Postal Service? Easy question.

Mr. SETRAKIAN. My previous remarks, Mr. Chairman, are quite negative.

Mr. LELAND. Anybody else?

Mr. RYAN. I think that the remarks that I made a few minutes ago would be sufficient to indicate my position.

Mr. LELAND. I apologize.

Mr. GRIESEMER. Mr. Chairman, I would like to also say that I think that the proposals are totally wrong. The more that the Administration will leave the present situation alone, as you have constituted it, in the authority being delegated to the Board of Governors, and the more that we leave the daily operations alone and delegated to a good Postmaster General, the better the whole thing will be.

There is no way that these proposals they have submitted could do anything but harm the Postal Service.

And while I have the microphone, I would like to thank every one of you for your strong efforts to get us off-budget. I personally think that it is vital if this organization is to continue to serve the American people.

Mr. LELAND. Let me also announce that we have now got 239 cosponsors to the legislation.

Mr. HALL. Let me add my comments to those who support the rationale for being off-budget and just add a couple of specific items to that rationale.

The fundamental issue, it seems, is, what is the system by which we will manage postal affairs? The current system suggests that with Congressional oversight the Board of Governors and an executive team will look to enhance current service and to make optimum investments to get the right kind of improvements.

Once that process is concluded, having determined the appropriate investments that need to be made, in addition to operating efficiencies, to then turn around and have elective surgery done to that investment scheme by the on-budget process is just catastrophic.

We need to have one form of management or another form of management, but to try to mix the two, I think, leads to confusion and lessened efficiency.

Mr. LELAND. Thank you.

Any other rem rks about the question?

Were any of you contacted by either the Reagan or Bush Administration to get your views on the Postal Service treatment in their budget proposal?

Mr. SETRAKIAN. No, not to my knowledge.

Mr. LELAND. As you know, I have introduced some legislation dealing with the off budget matter, and I want to commend you for your support of it.

I wish that the Bush Administration would be as kind to you as my good colleagues, and advise them that they should come to you and contact you and ask your opinion about these things, to get into high gear and do your business or attempt to do your business for you.

Mr. HORTON. Thank you, Mr. Chairman.

As a matter of fact, they did not ask me either. [Laughter.]

But I am going to see that they hear from me, I will guarantee it. I have got the word out already.

Mr. Chairman, I have got a few questions of the Board.

First of all, I would like to ask you to give me your assessment of Tony Frank. He has just completed one year as Postmaster General. How would you assess his performance?

Are the Board of Governors pleased with him?

Mr. SETRAKIAN. Congressman Horton, I think that I can speak for the entire Board.

We could not be more pleased. As has been indicated by Congressman Gilman, Tony has just completed his first year, and we are all sitting around on occasion wondering how we are going to entice him to stay another 10 years, rather than the three to five that he has been committed to.

If I could just state this—our feeling about the Postmaster General—in this positive light, we see his performance in a very positive light.

Mr. HORTON. I want to join with you in what you said about his performance. I certainly agree with you, and with his type of leadership, and with the present Board. I look for great things in the next few years, as far as the Postal Service is concerned.

I know that we have got a lot of problems, and as I said earlier, I think one of the major problems is this off budget. It is my understanding that the Board of Governors is supportive of the off-

budget bill. I know, Mr. Chairman, that you have indicated your support.

But let me ask—is this unanimous? Are all the members of the Board of Governors supportive of this type of legislation to take the Postal Service off budget?

Mr. SETRAKIAN. I believe that it is unanimous, Congressman.

Mr. HORTON. Is there anybody here—I know that two are missing. But is everybody here this morning supportive of this—wholeheartedly supportive? I mean, not just a lip service, but really feel it is important?

As a Board of Governors, I think that it is important for you to understand what that problem is. As a Board of Directors of the Postal Service, if the Federal Government, in order to make its budget goals, comes back again and says we want $2 billion, $6 billion, $10 billion, $12 billion—they could come in and ask you for anything. They can really throw you into a chaotic situation as far as your operation is concerned.

Mr. SETRAKIAN. We have gotten a good feeling for that problem through the Omnibus Budget Reconciliation Actof 1987, and taking those kinds of problems—taking that kind of dollars out of our budget—and then remaining on-budget, and having that on a cash basis would be catastrophic.

Mr. HORTON. The Postal Service is now authorized to borrow up to $10 billion in capital expenses and operating expenses. Do you think that Congress ought to raise that limitation? Is that sufficient?

Mr. SETRAKIAN. I am glad that you asked that very specific question, Congressman.

The $10 billion cap has been the same cap that was existent in 1970. On a comparable basis, that cap theoretically should be raised to $30 billion.

Some area within those two numbers is a requirement that we are going to have to look at, and come to Congress in the hope that we can get some relief.

Mr. HORTON. Well, perhaps we could get a recommendation from the Board of Governors with regard to that, and maybe we could follow through on it.

It seems to me that that cap ought to be raised, and perhaps some supportive information from the Board and from the Postmaster General would be helpful.

Yes, Mr. Ryan?

Mr. RYAN. I think that equally important with the comparison of 1970 dollars and 1989 dollars is that we, through long-range planning, are looking at our facility requirement needs, and that reflects the requirement for more money than the present cap.

It is not just a sort of traditional comparison with the past and the future. We have got a plan, and the plan is the most reasonable one that our folks have been able to come up with, and it is going to require this type of planning.

Mr. HORTON. One further question. At some time, the Board has been accused of micro-managing the Postal Service, and at other times it has been accused of being a rubber stamp for management.

How do you assess your current position, and what do you think is the best role as far as the Board of Governors is concerned?

Mr. SETRAKIAN. I am sure there are others who would also like to respond to that question, Congressman Horton.

My response, I think, would be relating to my opening statement. I consider that we do indeed have the finest Board of Governors since my association during the past three years.

During those three years, particularly the first year, in 1986, there was a reason, in my judgement, for the concern of micro-management. That, in my opinion, was exactly what was happening during that period.

It is a fine line that one must draw in our capacity with the Postal Service, keeping in mind that we have this awesome obligation in terms of our overview of management's area of creativity.

Also keep in focus the fact that we only meet two days a month, 24 days a year. We do not have the capacity for micro-management. We do, however, have the capacity for overview, and giving the Postal Service a kind of general direction that we feel Congress and the citizens of this country are looking for.

Mr. HORTON. Well, it is certainly not a rubber stamp—that is not a charge that could be made of the present Board of Governors.

I think that the manner in which you have been operating more recently is a good approach to the subject, and I hope that it will continue in that vein, to advise and help and assist and give leadership, but not in the day to day operations, but rather to depend more on the leadership of the Postmaster General to operate the Postal Service.

Mr. SETRAKIAN. The Postmaster General and his very, very highly qualified staff.

Mr. HORTON. Thank you, Mr. Chairman.

I have no further questions.

Again, I want to commend the present Board and their leadership, and I continue to look forward to working with you.

Mr. SETRAKIAN. Thank you, Mr. Congressman.

Mr. MCCLOSKEY. Does anyone else have any comments?

Mr. Gilman?

Mr. GILMAN. Thank you, Mr. Chairman.

I address this to the Chairman of the Board. Do you have any proposal, a timetable for rate increases? Has the Board considered any rate increase, and proposed a specific timetable for that increase?

Mr. SETRAKIAN. Congressman Gilman, as Postmaster General, Frank has so aptly stated on many occasions that it is the intent to stretch out, as far as we possibly can, rate adjustments.

I would like to associate with a remark that Congressman Horton made earlier. I hope to God I live to see the day—and I think that I am going to—where we are going to have a rate reduction.

I think that we are on the cusp. We are on that very fine edge of incredible technological advancement, that can be utilized both by the Postal System—and when one takes into consideration the fact that 83 percent of our entire revenue is devoted to labor, we are talking about 83 percent of $40 billion.

The margin for utilization of technology is going to become available to us on a shorter timeframe as each year goes by, in my judgement.

You mentioned earlier, Congressman Gilman, that today we are moving 160 billion pieces of mail per year. In the year 2000, it is estimated that that number is going to exceed 240 billion pieces of mail a year.

I think that it is incredible to find that the amount of labor that we have been utilizing during the past five years has been fairly static, even though the rate of volume has increased 4 percent compounded annually.

This is a positive indication that the technology that we are using is working, even though it is in its infancy.

So, to respond to your immediate question, it is my belief that we will have a rate increase by necessity. The general indication is that it is going to be 1991.

But I hasten to add that as each of these periodic rate changes occur—I am trying to avoid the use of the word "increase"—I think that it is indeed going to stretch out, as Postmaster General Frank has indicated.

Mr. GILMAN. Thank you, Mr. Chairman.

With regard to taking the Postal budget off budget—some of our colleagues have inquired as to whether or not there might be some trade-offs that could be suggested in the process. For example, letting the Postal Service carry some of the present costs of some of the benefits that are paid for by the general budget.

Mr. SETRAKIAN. I missed part of that, Congressman Gilman.

Mr. GILMAN. Well, in trying to find some accommodation with the Administration on the off-budget proposal, are there any trade-offs that you could suggest that might be available?

Mr. SETRAKIAN. I think the specific trade-off is that if we stay on-budget, it is going to increase the general deficit by over $2 billion.

Taking us off-budget is going to eliminate that. It would seem to me that that is a fairly major trade-off.

Mr. GILMAN. I would think so.

Would there be a deficit the following year?

Mr. SETRAKIAN. Pardon me, sir?

Mr. GILMAN. Do you anticipate that there would be a deficit in fiscal year 1990?

Mr. SETRAKIAN. I cannot respond to that at this particular juncture.

As we are generally indicating, in the current fiscal year, we have preliminarily indicated a profit of around $620 million.

That amount of money is fairly insignificant—if you look at it in terms of sales revenue of $40 billion, the difference between $600 million and where it is actually going to end up, I cannot respond to now. But I can assure you that it would probably be somewhere in the neighborhood of less than one-half of one percent, plus or minus.

Mr. HALL. If I could add to that.

Mr. GILMAN. Yes, please.

Mr. HALL. A lot of this depends on what one calls a deficit, and this calls into very sharp focus the cash versus accrual accounting basis.

For example, if we are going to spend $2 billion this year on capital improvements, that would have a life of many years—let's just

say 10 years—we would normally say that expense is $200 million per year, but the cash is $2 billion the first year.

If we are getting an improvement, a productivity improvement, over and above that $200 million per year, it is good for the Postal Service. But on a cash basis, you would view it as a deficit of $2 billion the first year.

Since we are on a capital improvement program of some $12 billion or $13 billion over the next five years, on a cash basis that looks like a deficit. But on a business basis, that would be the basis for improved productivity.

Mr. GILMAN. Well, are you stating to us that the improvements are not stretched out for budgetary purpose, but are carried as a cash basis for OMB purposes?

Mr. HALL. Yes. It is all counted as cash the year in which the money is spent, and treated as a deficit for that year in the cash accounting system.

Mr. GILMAN. Is that done throughout all of OMB's agency considerations? Does that apply across the board?

Mr. HALL. As we understand it, that is correct.

Mr. GILMAN. Have you suggested that there be an accrual accounting for the Postal Service budget?

Mr. HALL. They have accountants there—Congressman Gilman, they are more knowledgeable than I. And I find it incredible that the suggestion of maintaining us on-budget with our ability, if you will, to add to the deficit, based on that accounting system, is beyond my comprehension.

Mr. GILMAN. Yes.

Mr. RYAN. Excuse me for butting in, but one of the great features indeed of the Postal Reorganization Act is that it did set the Postal System up under an accrual system, as all businesses—perhaps not all, but almost all —businesses are set up under.

For our own accounting purposes we depreciate and spread the cost, the capital cost, over time.

The problem comes, I think, when that clashes up against the cash system, which the Government uses—I cannot tell you why.

I remember that Joe Barr, when he was Secretary of Treasury for a brief period of time was pushing—a good Hoosier—to put the Federal Government on an accrual system.

But in any case, the Federal Government is on a cash system. So it is when you meld them together—that is, I think, what Ira is mentioning—and you treat what is indeed accrual as if it were cash, you are trying to mix two things together which, in order to do it, you have to put a footnote down at the bottom and plug the different figures each time you meld them together.

But we do use the accrual system.

Mr. GILMAN. I think that you raise a very real point that we should explore.

Mr. Chairman, I would hope that we could take a further look at why OMB treats this as a cash basis, when the Organization Act calls for an accrual basis.

I think that is something substantative.

Mr. RYAN. Well, not to pursue my part of this too much further, but I think that if we come out with—if we have a small capital

expenditure here, and we make a big profit in our operation, the accrual system may be of benefit to OMB.

I think that what has happened is that things flip-flopped, and that we indeed are going to have a deficit.

Mr. GILMAN. Thank you for your comments.

Mr. GRIESEMER. Congressman Gilman, if I may?

One of your questions was, had we apprised OMB of this situation? The only contact that I know of that this board has had was when we were meeting in New York about one year ago. I received a call from Mr. Jim Miller of OMB. I tried to discuss this matter with him, over the telephone, and about all I can say is that the conversation deteriorated. We were unable to have a meeting of the minds.

One of us does not understand what we were talking about, and I assume it must have been me. [Laughter.]

Mr. GILMAN. Mr. Chairman, do any of the OMB people meet with the Board at any time?

Mr. SETRAKIAN. No. Congressman, I would like to add one other piece to this mosaic, if I could.

You know, as I think Governor Griesemer mentioned, or Governor Hall, we have a capital budget now of around $12 billion to $13 billion for the next five years, a portion of which goes to the equipment—I think about $4 billion of that is for the equipment, and most of the balance is for facility development.

We have to keep in focus the fact that, as Congressman Ford mentioned before he departed, that we have got a huge population movement going throughout this entire country of ours, and it is going into areas where we need facilities— new facilities.

The other problem is that all of our other facilities have an average age of 35 years. Our facility in Brooklyn right now is 92 years old. It cannot utilize this technology that we are currently in.

So I want to stress the fact that although we now have a capital budget development program of $12 billion or $13 billion for the next five years, that is not going to go away. We are going to need more than that.

I do not know how long the equipment we are using now is going to be outmoded by new technical equipment five years down the line.

Mr. HORTON. Because the Postal Service was on budget, the summit in its wisdom chose to take $1.7 billion from the Postal Service over a two-year period. And one of the ways that was accomplished, to meet that goal, was to reduce the capital budget.

So you had to defer some of your construction which was very injurious to the Postal Service——

Mr. SETRAKIAN. Absolutely, right.

Mr. HORTON. And I think that this is one of the prime considerations—at least it was in my consideration when I became dedicated to getting the Postal Service off budget.

OMB does not care about your capital budget problems. They are interested in just getting money to meet their obligation under Gramm-Rudman. And if they put a hit on you, it is up to you as to where you get the money from. But because of the circumstances at that time, it had to come out of the capital budget—a good portion of it did.

And it was on a delayed basis. Everyone said, well, that is all right, we will delay it. But that was really a chaotic disruption of the Postal Service's capital budget program.

Mr. SETRAKIAN. It was indeed.

If I could add to that, Congressman Horton, in the wisdom of our management, for which I give them high praise—when that cut took place, they did whatever was necessary to maintain the production program on our equipment.

So, at least to that extent, we are not behind on that, and the one that did take the major hit, as you have phrased it, is the physical facility program.

Mr. GILMAN. Just one more question, Mr. Chairman.

You state that your oversight and your meetings are limited to twice a month, is that correct? Your Board meetings?

Mr. SETRAKIAN. Our meetings, Congressman Gilman, are on a monthly basis. Usually we meet on the first Monday and Tuesday of each month.

These meetings are held every other month in Washington, D.C., and on the alternate month, we attempt to meet in various areas around the United States that will give us some added insight.

For example, next meeting we will be in Memphis, Tennessee, and we are going to tour the entire operation of Federal Express.

Mr. GILMAN. I am pleased that you mention that.

Do you encourage the Board members to go out on their own to visit facilities and take a first-hand look at the operation?

Mr. SETRAKIAN. I just could not be more pleased to hear that question, Congressman.

This Board is a dedicated Board, as I have said over and over again, more than any I have ever seen before.

As an example, Governor Mackie, along with Governor Hall, flew to Norman, Oklahoma recently to help with the dedication of the new training facility that we have there.

Governor Hall has flown from his home in Connecticut to San Diego to participate in seminars with the third class mail people.

I am tentatively going to be in Atlanta, Georgia next Monday to attend a Regional Postal Forum, and I can just give you those initial illustrations. We have an active Board, a participating Board. We have a Board that cares, and we care as much for our customers as we do for the intra-development of the system itself.

Mr. GILMAN. I am pleased to hear your comments.

I would like to suggest that you might want to consider inviting OMB to come to one of your Board meetings.

Thank you, Mr. Chairman.

Mr. MCCLOSKEY. Thank you very much, Mr. Gilman.

Mr. Chairman?

Mr. LELAND. Mr. Chairman, Postmaster General Frank made an attempt to bring in Ross Perot as a consultant.

I thought that it was a real shame that the Postal Service mishandled that situation the way it did, because I thought that they badly needed the kin of unbiased, independent assessment of their operations that someone like Ross Perot could have made and would have provided.

What do you think about what happened? Could you give me just some short response to that? What really happened?

Mr. SETRAKIAN. Are you addressing that question to me, Mr. Leland?

Mr. LELAND. Well, anyone who might feel comfortable in responding.

Mr. SETRAKIAN. I would be happy to respond later, also.

Mr. LELAND. Sure.

Mr. GRIESEMER. Congressman, I probably have a different view of this than anybody else on the Board.

I think that we ought to all have left Tony Frank alone. I was Chairman at the time, and he asked me whether he should bring this before the Board. I told him over the phone, "No, go ahead. You are only talking about doing a half-million-dollar study as a start, and that is within your authority. Let us see what he does under that half million and then look at it."

We never got that far—we never got that half million study done, and I am very disappointed that everybody did not stay out of it—all of us in the room, GM and everybody else. I would like to see what he came up with, and I would hope that they would come up with something where Ross Perot could make a billion dollars, if it were on the right percentage where the American people made ten or twenty.

Mr. LELAND. You could have shared some of that with members of Congress, to supplement our income.

Anybody else? Mr. Chairman?

Mr. SETRAKIAN. Well, I think that John touched on what I wanted to say.

I would probably raise it somewhat differently, Chairman Leland, than you indicated, in terms of the Postal Service being able to handle it in a better way.

As Chairman Griesemer indicated, we took a hands-off position. This was a program that management conceived and developed, and there was a positive action, not only on the side of the Postal Service, but also with Mr. Ross Perot and his colleagues.

And I should also add that there was no more than a draft proposal that was developing. However, outside sources decided that maybe there was a piece of a much bigger pie available that should have been developed, and hence what has eventually now developed with the Postal Service totally out of it and litigation between a subsidiary of General Motors and the Ross Perot Group.

I agree with you that it is unfortunate that it happened. I totally agree with you that the services of a great patriot and brilliant entrepreneur like Ross Perot is a loss to the Postal Service.

I hope that we have all learned a lesson from this. I do not know what that lesson is yet, but I hope that we will be able to utilize that lesson and still develop a program over that idea that General Frank had.

Mr. GILMAN. One last question, Mr. Chairman.

What is your opinion about Postmaster General Frank's announcement that he plans to expand money orders into the electronic cash transfer business?

Mr. SETRAKIAN. Are you directing that to me, Chairman?

That program was one of many that Mr. Frank, along with his management colleagues, have been reviewing.

What are the various potential profit centers that can be available to customers of the Postal Service? That was one of them.

It still is one of them. However, as you may well know, that program is on hold now. It is on hold for reasons that management has reviewed with potential competitors, and I think that the indication through correspondence has been—and Mr. Frank can speak of this better than I—that the program has not been terminated, but rather shelved until such time as it becomes viable and not injurious to competition.

Mr. GILMAN. Thank you, Mr. Chairman.

Mr. MCCLOSKEY. Thank you very much, Mr. Chairman.

Does anyone else have any comments, particularly from the Board, that they would like to add? Some point of emphasis that has not been covered?

Mr. HALL. I would like to add just one item, and it is more philosophical than specific.

But if we look at the increased total factor productivity that is going to be needed within the Postal Service to meet the increases in the expense base that we all know and understand very well, I think that we are going to need even more flexibility than we have today, and specifically I think that we are going to need some flexibility to types as well as amount of compensation.

We are not before you today with all of the answers, but these are some avenues that we need to explore, and we certainly are going to need your support and contribution to us in helping to understand the benefits and minuses of certain types of proposals and the kind of political receptivity they might get.

Improvement well beyond business as usual is going to be needed, up and down the ranks of the employee base.

My personal view, coming from the private sector, is that compensation is always a part of that reward structure, and that is another thing that we cannot do within the current financial ceiling that is placed not just on the top executive officers, but being able to make a substantial bonus award to people below the top.

Again this is more philosophical in its timeliness now, but in the not too distant future, we will need interaction with you on this subject.

Mr. MCCLOSKEY. Thank you very much, Mr. Hall.

If there are no further comments, let me thank Mr. Setrakian and the Board for an excellent discussion and presentation. We look forward to being with you soon, and continuing to work together, sir.

Mr. SETRAKIAN. Chairman McCloskey, I want to thank you and all of the Committee members, and I know that all of my Board associates agree with these remarks, particularly for your volunteering three critical points that are so necessary to us—namely, the off-budget problem, that of our capital change from a $10 billion cap, and the third, the whole program of compensation for our key personnel.

Thank you very much, sir.

Mr. MCCLOSKEY. Thank you again.

[The following response to written questions was received:]

QUESTIONS FOR THE BOARD OF GOVERNORS FROM CHAIRMAN FRANK MCCLOSKEY

1. There has been some discussion in the past that the Board of Governors has had to make decisions on matters of great importance to the Postal Service without having had much time to digest the issue. Do you think it would be helpful to the Board members if you had more staffing to assist you in your deliberations?

Response. No, we do not believe that we need additional staff support at this time. Under our structure we have the authority and means to add staff support anytime we need to do so and the Board would certainly not hesitate to take such action should tne need arise. From time-to-time in the past the Board has used expert consultants for specific projects when we have deemed it necessary.

2. Are you satisfied with your role in the Postal Service's procurement process? Do you feel you should have more input about important procurement decisions?

Response. Yes, we are satisfied with our role as the policy setters of the Postal Service and as an extension of that our role in the procurement process. In that process it is in our power to step into a more active oversight role should we feel it necessary to do so. We have reserved for Board approval all capital investment projects in excess of $10 million; procurement decisions, vendor selection and contract award, however, are the prerogative of management and we do not feel that overview by the Board on procurement decisions is warranted at this time.

Mr. MCCLOSKEY. I want to welcome and thank Mr. Frank for being here today.

It just goes without saying that we appreciate his testimony so much, and we would like to honor him on the anniversary of his first year of service for the Postal Service.

Mr. Frank, I hope that you stay for many more years. Particularly, in all sincerity, besides Postal matters, I look forward to meeting with you soon, professionally and socially, to get some real advice on the S&L crisis. I think that if we had you in charge a few years ago, we would not be facing the horrendous choices there that we are facing right now.

Although we will need your advice on that, we are here today to discuss the Postal Service. Sir, why don't you proceed as you like with a statement, and introduce your staff, and so forth?

STATEMENT OF HON. ANTHONY FRANK, POSTMASTER GENERAL OF THE UNITED STATES

Mr. FRANK. Well, thank you very much, Chairman McCloskey and Chairman Leland, Mr. Horton and Mr. Gilman.

I know that your time is so valuable. I have filed a statement with you, and I would be happy to forego the reading if you wish.

Mr. MCCLOSKEY. Well, why don't we just accept it for the record, Mr. Frank, and highlight and discuss as you wish.

[The prepared statement of Mr. Frank follows:]

STATEMENT OF POSTMASTER GENERAL ANTHONY M. FRANK
BEFORE THE SUBCOMMITTEES ON POSTAL OPERATIONS
AND SERVICES AND POSTAL PERSONNEL AND MODERNIZATION
HOUSE COMMITTEE ON POST OFFICE AND CIVIL SERVICE

March 8, 1989

Messrs. Chairman and Committee Members:

Good morning. I'm delighted to be the first in a while to have the privilege of coming back for a second of these annual oversight discussions with you.

What a difference a year makes. Last year at this time the Postal Service was getting itself together after absorbing what had seemed like a budgetary ambush, striking just at the time we had to ask our customers to accept a scheduled rate increase. Amidst distractions like these, if it seemed the public might develop doubts about their postal system, and some of our own people were getting discouraged, who could blame them?

A year later, I think we're moving back on the right track. A bit gingerly, perhaps, with a new recognition of our vulnerability to outside forces we do not control. And not yet at full steam in our capital modernization program, where the drastic budgetary cutbacks still pinch hard. But I think our morale is improving. And our attention is fixed where it should be, on continuing the progress required to maintain a postal system second to none.

The Postal Service is still the largest, most reliable, and least costly mail system in the world. We have an efficient,

responsive, and self-supporting operation. And we intend to keep it that way.

I like to summarize our agenda in terms of three points:

-- stretching out the time between rate increases;

-- improving our employee relations; and

-- providing even better service for the public.

I've also said that this year presents a unique opportunity to move ahead on all three fronts. When could we expect a better overall climate, than a year without the distractions of either collective bargaining negotiations or a rate proceeding?

Getting to a longer rate cycle implies improving overall productivity.

Automation can give us part of the savings we need to handle growing mail volume, perhaps tempering requirements for new positions by 100,000 to 125,000 people through the end of this century.

We've announced a critical goal of getting a bar code on all mail by 1995. And we're already looking to hit the 40 percent level this year. That's a good start and we're confident we can make the 1995 target.

The technology to help us reach our automation goals is sound. We've completed taking delivery of all 406 Phase II optical character readers, on schedule. These machines are being adapted to scan the entire address and print a bar code. We expect to have them all deployed by this May.

B

Based on competitive testing of the next generation of OCRs last summer, we will be contracting for new machines this spring. We also have contracts for competitive testing of advanced bar code readers and a new remote video encoding system.

Absorbing powerful new technologies in an operation as large and complex as the Postal Service entails a period of learning and adjustment. We will have to work through this learning process before we can expect to fully capture the savings that these new systems can achieve.

Work-sharing -- creating incentives for mailers to do more to make it cheaper for us to handle their mail -- offers another area of opportunity where we want to move ahead. We recently received the report from our joint effort with the mailing community which has identified some of the additional things that can be done.

In looking to improve employee relations, our goal is a sense of responsibility and participation at all levels of the work force. We fall short of that in some respects now, and in some localities more than others. Unless the more than 800,000 men and women in the Postal Service can join in the process of improving this institution <u>together</u>, can we seriously expect our customers to respect our intentions and join with us?

We've spent too much energy quarreling among ourselves. This year we're working with our employees toward a national goal of cutting referred grievances and EEO complaints by half. In

some places we're already well ahead of that goal, and I think we'll meet it.

With the three cooperating unions, we've now expanded our employee involvement process into all 75 field divisions. We've also joined with the three management organizations to sponsor a management-by-participation initiative to spread a philosophy of more open communication and a stronger relationship among postal managers.

Improving relations within the Postal Service and with our customers helps us serve the public better. But we're also pushing ahead with a number of initiatives to make postal services more convenient, such as putting stamps on consignment in grocery and other chain stores. In a number of our own facilities, we're assigning what we call "lobby directors" to greet customers as they come in, get them in the right line, and speed them along if they can. We're also looking for ways to improve external measurement systems for service performance for both First-Class and third-class mail.

Later this year, from November 13 to December 14, we will host the 20th Congress of the Universal Postal Union, here in Washington. The UPU meets in Congress once every five years to update the Universal Postal Convention and related agreements. This Congress will give us an opportunity to provide leadership in efforts to improve the quality of international mail services and to develop new services meeting the needs of the mailing public.

By doing our job well in the three key areas -- rates, employee relations, and service -- we earn the trust which you and your constituents have placed in us. In general, I'm satisfied that within the Postal Service we have the opportunity, the ability, and the dedication needed to produce the results that you expect.

We do very much need, and we appreciate, this Committee's continuing help on three legislative issues of vital importance to the Postal Service. I raise them here to reiterate the depth of my concern about all three of them.

First, we face the need for an increase in borrowing authority. Inflation alone has taken away two thirds of the authority you gave us in the 1970 reorganization. The Omnibus Budget Act crippled our facilities program and slowed other capital improvement projects for 1988 and 1989. Our capital plan now includes accelerated commitments starting in 1990 to get these vital investments in our future back on track. To finance this activity, it's essential to follow through on the legislative change in our borrowing ceilings which the House of Representatives supported last year.

Number two, the matter of executive pay. We appreciate what many of you have been working hard to achieve. And we respect the situation you face on Congressional pay. To run this postal organization, I'm supposed to ask people to carry tremendous responsibilities -- many of them managing tens of thousands of employees -- at salary levels which just are not attractive

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enough, most dramatically so in the higher-cost areas of the country. I know it's not an easy problem to fix. You have my full support, and I will be happy to do whatever I can to help. We have to do better, or this issue can gradually undermine the public business of this institution.

Third, the Postal Service does not belong in the unitary budget. If the last budget reconciliation wasn't proof enough, take a look at "on-budget" management of the Postal Service as proposed in the outgoing Administration proposals filed in January. I won't occupy your time further to preach off budget legislation before its sponsors.

As always, it's a pleasure to have this opportunity. And I'll be glad to answer any questions.

Mr. FRANK. Thank you.

With me today is Louis Cox, General Counsel; Comer Coppie, our Chief Financial Officer, and Michael Coughlin, the Deputy Postmaster General.

It really points up the situation of the Postal Service to have had this spate of congratulations on finishing my first year. My hope is that that never happens again in the Postal Service, that it is an achievement to have gone through the first year.

I have very little to add to my written statement. We are deeply concerned about the off-budget bill. We need help on our debt ceiling, and the pay matter is something that we are all on record as favoring.

I think that we have made some progress during the past year. We have gotten better, but we are not there yet, and I am not sure that we ever will be there. I am not sure where "there" is. We want to make the Postal Service better and serve the American people better.

From all the comments that we have heard from customers, craft workers, supervisors, Postmasters, senior management, and the Board of Governors, we are making some progress. But we have a long way to go.

Putting in a substantial amount of automated equipment is difficult. It is unique, possibly, in the world. That takes some getting used to.

The margins on which we work are amazingly narrow. Any extraneous influence can affect our revenue from a bad assumption on the consumer price index as it affects our COLA, to health costs, to volume, and volume mix.

All of those can affect us, each possibly by a half of one percent. In the private sector, being within one-half of one percent is an incredible achievement. Here it results in a variance of $200 million.

It is difficult to be hyperprecise.

Thank you, Mr. Chairman.

I would be happy to take your questions.

Mr. MCCLOSKEY. Thank you very much, Mr. Frank.

As you know, Mr. Ford unfortunately had to leave us, but he requested that I ask one fairly large, detailed question for you and your staff to answer for the record. I know that you are prepared, since it is part of the overall budget alternatives quite specifically facing us right now.

As you know, the Reagan Administration budget calls for some 11 proposals, resulting in a $1.6 billion or $2 billion savings within the Postal Service. OMB claims particular savings, for example, on the proposal for substitute contractors' operating community post office and retail service provided by carriers for approximately 7,000 limited service Post Offices in rural areas. As you know, that was mentioned in my opening statement.

OMB claims a $90 million saving on this on proposal. I know that your staff has an alternative figure as to that and the 10 other suggested reductions. Could we go over those, and just contrast and see what your scorecard is, versus the Administration's scorecard?

Mr. FRANK. Well, I would be happy to do that.

I do want to say as carefully as I can that I think these figures have less of a financial bent than they do an ideological bent. I

think that this exhibits a deliberate hostility to the concept of an independent Government agency providing postal services.

While I am certainly happy to respond to the financial aspects, I do not think that these are——

Mr. McCLOSKEY. You can respond as to both aspects, ideological and financial. I appreciate your forthrightness, Mr. General.

Mr. FRANK. Well, the most important, of course, is the labor contract, and the suggestion is to cancel the labor contract and pay people what we wish.

Certainly this is a novel approach. [Laughter.]

Mr. McCLOSKEY. It is not that novel these days, unfortunately.

Mr. FRANK. I mean——

Mr. LELAND. Is that the Frank Lorenzo approach? [Laughter.]

Mr. FRANK. I hate to see the word "Frank" used in that connection, but yes, I guess it might be.

I am just taking the largest items first, Mr. Chairman. The capital reduction is just manifestly impossible. It is the third year of draconian cutbacks of capital expenditures, and it is simply not possible.

The Board of Governors yesterday, after a lot of work by our staff and senior management, approved a new facility for Brooklyn to replace a 96-year-old building in which the mail has to go up to different floors several times in order to be processed.

That facility alone is going to cost $174 million, and there is nothing that we can do except do it. If we wait, it will just be that much worse, in the service and the amount of money.

So these are two items. Perhaps Mr. Coughlin would like to speak to the other nine items.

Mr. COUGHLIN. Mr. Chairman, we can provide a detailed analysis for the record for each one of the proposals in the operating area that the Office of Management and Budget says would save $713 million.

[The following information was supplied:]

U.S. Postal Service Comments on OMB
FY 1990 Legislative Initiatives to Reduce
Postal Service Costs

Most of OMB's cost reduction initiatives were taken from an OMB report entitled "U.S. Postal Service Cost Reduction Proposals," dated March 7, 1988. The report assumed that each proposal would be implemented at the start of FY 1988 and contained an estimate of cost savings for FY 1988 and 1989 and what was referred to as "steady-state" or ongoing savings that would result once the proposal was fully implemented. The FY 1989, or second-year savings, included in the report were used as first-year savings in the FY 1990 President's Budget. This misuse of second-year savings results in OMB's estimates being technically invalid even if one accepts them as conceptually sound, which the Postal Service does not. The scale of many of the reductions proposed seems to have been selected arbitrarily to yield assumed savings numbers within the budget year. It appears that no more than a casual analysis was done of what changes in existing operations or services is reasonable or even possible. OMB's proposal also includes a prohibition on service reduction, which is unrealistic given the character and pace of the operating changes it seeks to force into the budget year.

Some of the proposals involve areas in which savings genuinely may be possible over a period of years if pursued in a realistic way, but cannot be expected to produce immediate and arbitrarily predetermined results in FY 1990.

Office of Management and Budget
FY 1990 Legislative Initiatives to Reduce Postal Service Costs
$ millions

OMB Legislative Initiatives	Estimated FY 1990 Savings		
	OMB	USPS	Difference
1. Divert mail from air to surface transportation when delivery is not delayed	40	0	-40
2. Contract out all janitorial services	20	7	-13
3. Exercise stricter controls over employee absences	45	0	-45
4. Improve management of non-productive workhours (breaks, movement of empty mail containers, etc.)	100	0	-100
5. Expand use of casual employees to meet peak-load requirements (assumes legislated change in labor contract to allow more casuals)	128	128	0
6. Replace 7,000 rural post offices with contract stations (assumes legislation requiring USPS to close rural post offices effective October 1, 1989)	90	95	5
7. Replace 6,200 small post offices in metro areas with contract stations	55	Negligible	-55
8. Contract out sorting of new mail volume	125	0	-125
9. Shift parcel and express mail to UPS, Federal Express, etc.	35	0	-35
10. Contract out additional 10% of 20 million daily rural deliveries to "star route" carriers	30	Negligible	-30
11. Contract out 5% of the 76 million daily deliveries in metro areas	45	Negligible	-45
SUBTOTAL	713	230	-483
12. Replace contractual labor contract provisions for pay and COLA with 2% pay increase (assumes legislated change to rescind FY 1990 pay and COLA increases scheduled under the current labor contract)	441	441	0
TOTAL	1,154	671	-483

Mr. HORTON. I think it is a good idea to furnish that analysis for the record. But I also think it would be helpful if you could get copies of that to us, as members of the committee, separately, because we will be coming up against this budget item very shortly, and it would be helpful for us to have that kind of information.

Mr. GILMAN. Would the gentleman yield?

Mr. LELAND. Mr. Gilman.

Mr. GILMAN. With regard to OMB's request, did they confer with you at all before or during the process?

Mr. FRANK. Mr. Gilman, the answer to that question is that they did not.

Let me just develop this a little bit further. The reductions that we are talking about were taken from the March, 1988 report that the Office of Management and Budget prepared impacting on fiscal year 1988 and fiscal year 1989.

There was no update of that specifically to match it with the 1990 fiscal year. They chose the second year potential savings, so that really kind of undermines the basic purpose of the OMB report of March, 1988.

More importantly, this puts the Office of Management and Budget in the position of micromanaging the Postal Service, and takes away the authority of the Board of Governors and the Postmaster General.

More specifically, for example, they call for the closing of 7,000 rural Post Offices in 1990. That could be done if in fact it is incorporated into legislation and approved by the Congress of the United States and signed into law by the President. The potential is there to save $90 million, but it would destroy the rural mail system in this country in a way that would be very dangerous.

And we could go on and point to others. But the highlight here is the fact that the authority given to the Postmaster General and the Board of Governors in the Reorganization Act to manage the Postal Service is undermined by this approach. It puts the President, and particularly the Office of Management and Budget, in a position where it is superimposing its judgment on the Postal Service, and I think that is very, very serious and very dangerous.

Mr. GILMAN. If the gentleman would yield further—have you requested OMB to come and confer with you with regard to any of these proposals?

Mr. COPPIE. Mr. Chairman, the process that we go through with OMB is that we do have a hearing on the budget with them.

They come back with their recommendations, and we respond. I will incorporate into the record the letter that we sent to the then-acting Director of the Office of Management and Budget relative to what we said about their proposals for fiscal year 1990.

[The letter follows:]

SENIOR ASSISTANT POSTMASTER GENERAL
Finance Group
Washington, DC 20260-5000

December 8, 1988

Honorable Joseph R. Wright
Director
Office of Management and Budget
Executive Office Building, Room 252
Washington, DC 20503-0001

Dear Mr. Wright:

This is in regard to the proposed "1990 Budget Decisions" furnished for Postal Service comment on December 1. Within the brief time allotted, we have only the most general comments.

Our overall reaction is that the program outlined in this paper is impractical and not in the best interest of the American public. Meaningful progress in improving the mail system cannot be achieved by proposing an annual list of legislative changes, which give every appearance of being arbitrarily selected to yield total "savings" numbers to meet predetermined budget targets and political objectives. Moreover, real progress is not likely to result from offering proposals as confrontational as some of these, which would try to renege on the wage and other obligations of collective bargaining agreements already in force.

The Postal Service shares the concern implicit in many of the proposals that further efficiency gains are essential and that contracting and working with the private sector for additional assistance are among the most promising avenues for seeking needed gains. The Postal Service is determined to make the additional changes that will be required. In proceeding toward that goal, there can be no substitute for informed management decisions and careful planning that includes honoring existing legal commitments and showing due regard for the interests and concerns of employees, ratepayers, and all others who have a stake in the postal system.

Certain of the "taxpayer subsidy" proposals included as initiatives are vastly overstated. Both the retirement COLA and annuitant health benefit computations improperly seek to make current postal ratepayers retroactively responsible for the cost of benefits of former employees, including many who served much or all of their time before the Postal Service was created. The 10-year amortization factor for the COLA proposal also arbitrarily proposes a payment period considerably shorter than the average retiree's life expectancy during which benefits will be paid. We agree that the Postal Service should pay its fair share of the cost of the Government's benefit programs in which its employees participate; however, these proposals would require postal ratepayers to pay for U.S. Government costs that should be borne by the taxpayers.

Sincerely,

Comer S. Coppie

Mr. COPPIE. Without exception, our recommendations were rejected.

Mr. FRANK. We have had no formal contact with OMB under the present Adminstration.

Mr. GILMAN. I guess that is why they call OMB the fourth branch of Government.

Mr. Chairman, if it would be possible to obtain a copy of the Postal Service's recommendations to OMB, the response—is it possible for you to submit that to us?

Mr. COPPIE. We will do that, Mr. Chairman, and provide it for the record.

Mr. MCCLOSKEY. Thank you, Mr. Gilman.

We will have more discussion, particularly with regard to Mr. Ford's request.

I am going to try to simplify and speed the record along in a few moments. But Mr. Horton is pressed for time right now, and has several good questions.

Mr. HORTON. Mr. Chairman, I appreciate you letting me go, because I do have some people waiting for me over in my office.

One question that I wanted to ask the Postmaster General—is it still his intention to remain for three to five years? I hope it is closer to five.

You have not revised your estimate any, have you?

Mr. FRANK. No, sir.

Thank you for your question.

Mr. HORTON. Well, I hope that you will consider five, and do not think of terms of three years.

Did you make a commitment to three? Three to five? Are you thinking about maybe more toward the five than the three? [Laughter.]

Mr. FRANK. Well, it is——

Mr. HORTON. Three years goes by pretty fast, you know. You have already spent one of them. So let's not think about that one—let's think about three more, at least.

I am also interested in your new program, management by participation. I think that is an excellent step forward to get involved with organizations within the Postal Service.

I do not mean for you to go into great detail at this stage, but just something to indicate what is the purpose of that program.

Mr. FRANK. Well, we have three management associations, Postmasters and Supervisors, and four unions—and now, with the inclusion of the three management associations, all of them are enthusiastically participating in this management by participation, where we sit down and work out problems.

Obviously, one of my big objectives is to cut down the paperwork in the Postal Service, and so is theirs, so that they can do their job better. I think that by working together, we can accomplish a lot. My executive assistant is a member of that group, and so on.

As I mentioned in my statement, three of the four Unions are cooperating with us in a similar effort, which we call employee involvement. I wish that the fourth would.

Mr. HORTON. When you talk about cutting paperwork, you are talking to one who is very much interested. I served some years ago, as you may or may not know, as the chairman of the Paper-

work Commission, to eliminate paperwork, and I am the principal author of the Paperwork Reduction Act, so anything you can do to cut back on that paperwork is going to be helpful.

A quick question—what about the Eastern Airlines strike? Has that affected your mail transportation service?

Mr. FRANK. Well, we have done a lot of preparation for that, and I would like Mr. Coughlin to speak to that briefly.

Mr. COUGHLIN. Up to this point, Congressman Horton, it has had almost no impact on us. We have transportation management personnel located at all the hubs around the country. The critical areas affected are down in Florida, Atlanta, and a few other cities like New Orleans.

At this point, the other carriers—commercial carriers—have been able to pick up the load, and do it without affecting service.

Mr. HORTON. I also wanted to ask you what program do you have to train new employees.

Mr. FRANK. Basically what it consists of is when we get a new employee, that is either to be a window clerk or a carrier, he or she is not sent immediately into the field to work. They are no longer thrown into a very difficult and strange position without adequate training.

Rather, they are trained off-site for a week or two by their peers—by other carriers and other clerks. The result of that has been that when they go to the stations to do their job, they have a feeling of confidence and knowledge, and the resultant turnover is dramatically reduced.

In some cases, turnover has been reduced from 30 percent or more leaving during the probationary period to 5 percent. It costs us about $3,000 to hire a new employee, so if we can cut our turnover down by that amount, what we call the carrier and clerk academy, will really pay for itself.

Mr. HORTON. As you know, Mr. Brooks is the former chairman of the Government Operations Committee and I am the ranking member.

We have a new chairman now, but Mr. Brooks and I did write to you with regard to that contract that was mentioned by Mr. Leland earlier. We felt that there was some concern there, that is, with the Government Operations Committee, with regard to the Brooks Act.

Ultimately, you did cancel that contract. We did send a letter to Mr. Ford, and I understand that Mr. Ford has a GAO investigation requested with regard to the procurement policies.

I just wanted to suggest that the Brooks Act will probably be coming up soon, and I hope that we have got that matter clarified soon. Have you any comment you want to make on that?

Mr. FRANK. Well, many if not all of the things in the Brooks Act——

Mr. HORTON. Excuse me.

Before you continue, Mr. Chairman, I would like to ask to include the correspondence between Mr. Brooks, Mr. Ford, and myself, in the record at this point on this subject. We also have a letter from the Postmaster General dated January 24, that I would like to put in the record at this point.

Mr. MCCLOSKEY. Without objection on all items.

[The letters referred to follow:]

ONE HUNDRED FIRST CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON GOVERNMENT OPERATIONS

2157 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, DC 20515

February 27, 1989

Hon. Jack Brooks
Chairman
Committee on the Judiciary
2137 RHOB
Washington, D.C., 20515

Dear Jack:

I received and appreciate the copy of your letter to Postmaster General Frank regarding the coordination of postal procurement regulations with the relevant Federal procurement statutes. I am also pleased that the Perot contract, which was contrary to every major procurement law we ever developed, was cancelled. As a result of our pressure, I might add!

And don't worry, Jack. Bill Ford and I will take care of the rest of the problem, now that you have jumped ship from Government Operations -- where you belong -- and gone over to Judiciary. In tribute to you, we will make sure that the Postal Service does not get too comfortable with its current procurement system. The GAO idea is a good one; I will follow-up on it with Chairman Ford.

I hope that you and Charlotte, and Nancy and I, have the opportunity to get together in the near future.

With kindest personal regards,

Sincerely,

Frank Horton
Ranking Minority Member

House of Representatives

Committee on Post Office
and Civil Service
Washington, DC 20515

TELEPHONE (202) 225-4054

February 28, 1989

The Honorable Jack Brooks
Chairman
Committee on the Judiciary
U.S. House of Representatives
2137 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

Thank you for your letter concerning the steps Postmaster General Anthony M. Frank is taking concerning the Postal Service's procurement procedures. Your suggestion of a General Accounting Office (GAO) review is an excellent one, and I have written the Comptroller General asking for one.

Your interest and expertise in this area, as well as those of Representative Horton has been very helpful. If the GAO review, or any other matter, warrants further action by this Committee be assured that action will be taken.

With kind regards,

Sincerely,

Bill

WILLIAM D. FORD
Chairman

WDF:pmj

cc: The Honorable Frank Horton ✓
Ranking Minority Member
Committee on Government Operations

House of Representatives

Committee on Post Office and Civil Service

Washington, DC 20515

TELEPHONE (202) 225-4054

February 28, 1989

The Honorable Charles A. Bowsher
Comptroller General
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Bowsher:

The enclosed letter indicates the United States Postal Service plans to amend its procurement regulations to bring them more closely in line with those required by the Brooks Act and the Competition in Contracting Act. The letter also states "it is both feasible and desirable for the Postal Service to conduct its procurements in accordance with the basic principles which under both the Brooks Act and the Competition in Contracting Act."

I would appreciate your monitoring the Postal Service's actions with respect to changes in its procurement regulations, procedures, or practices, and your advice as to the extent to which those regulations, procedures, and practices are consistent with those required by the Brooks Act and the Competition in Contracting Act, and other applicable laws governing Federal procurements.

Any questions should be directed to Pierce Myers of the Committee Staff (225-4054).

With kind regards,

Sincerely,

WILLIAM D. FORD
Chairman

Enclosure

WDF:pmj

THE POSTMASTER GENERAL
Washington, DC 20260-0010

January 24, 1989

Honorable Jack Brooks
House of Representatives
Washington, DC 20515-4309

Dear Congressman Brooks:

This is in response to your letter of October 11, cosigned by Congressman Frank Horton, urging the Postal Service to embrace the principles and policies established by the Brooks Act and the Competition in Contracting Act.

There is no doubt that it is both feasible and desirable for the Postal Service to conduct its procurements in accordance with the basic principles which underlie both the Brooks Act and the Competition in Contracting Act. These basic elements include competitive contracting with exceptions only when clearly justified and when advance notice to the public of all intended procurements of any significance is provided.

In my view, these principles are so clearly right that they should be part of the way the Postal Service does business whether or not they are mandated by statute. With this in mind, we have reviewed our acquisition regulations to determine what needs to be changed to ensure that Postal Service procurements are consistently carried out in the spirit of the Brooks and Competition in Contracting Acts. We are now in the process of taking the steps necessary to amend our procurement regulations to expressly require the publication, in the Commerce Business Daily, of a synopsis of any significant, proposed non-competitive contract.

With regard to the Postal Service's agreement with Perot Systems Corporation, I concluded that despite my desire for a mutually beneficial association with Mr. Perot and his most capable and talented people, the interests of the Postal Service and the people it serves would now best be served by terminating the contract.

Once again, I would like to express my appreciation for the interest which you have demonstrated in the Postal Service's procurement program. With the help of the Congress, we will continue to do our best to see that each postal dollar is spent wisely and that every contractor seeking to do business with the Postal Service is treated fairly.

Sincerely,

Anthony M. Frank

cc: Honorable Frank Horton

Mr. FRANK. The Federal Circuit Court here ruled that we are not subject to oversight by the GSA Board of Contract Appeals.

Nevertheless, there are many, if not all, of the principles of the Brooks Act that make sense for us. We are examining that, and revising some of our procedures to dovetail with the Brooks Act.

We have already done some prenotification, I understand. So we will be bringing ourselves into basic compliance with the principles underlying the Brooks Act without being under it.

Mr. HORTON. Well, Mr. Postmaster General, I just want to commend you on the way you handled that. I think that you exercised great leadership ability and that you handled the situation well. It was a difficult situation, and I think the manner in which you handled it indicates the type of leadership that you have given the Postal Service. I just want to take this chance to commend you.

I know that you just want to work through it, and everything will be worked out.

Mr. FRANK. I appreciate your comments.

Mr. HORTON. Now, the other thing, which is the most important. Recently I had occasion to meet with the ranking Republican on the budget committee. I talked with him about the off budget matter, and I told him how important it was that the Postal Service get off the budget.

He asked me some questions, and I want to get on the record here—for our purposes—how much does the Federal Government give to the Postal Service? In other words, is there some sort of funding from the Federal Government to the Postal Service? And if so, what is that?

Mr. FRANK. I will ask Mr. Coppie to speak specifically. In general terms, except for the revenue forgone for free and reduced ratemail postage, the only area that I know of, really, is what is sometimes called the indirect subsidy for annuitant COLAs.

We do not pay the cost of Postal Service annuitant COLAs. That is something that has been decided by Congress.

Mr. HORTON. Do you have a ballpark figure on that?

Mr. FRANK. I am sure that Mr. Coppie does.

Mr. COPPIE. Mr. Horton, let me develop this quite comprehensively, I will try to be brief.

I think that first, the subsidy issue is a very complicated one. As you have pointed out, revenue forgone should not be considered in the subsidy area.

But what I think is important in the context of the Reorganization Act is that the Postal Service was authorized to receive a public service subsidy to maintain the universal postal system for all years of its existence.

We requested that, and it was appropriated by the Congress from 1972 to 1982.

We have not received a public service subsidy since 1982, and we have not requested it since 1984. So, in terms of the direct operations of the Postal Service, the Postal Service is not being subsidized by Federal tax dollars.

Now, there are two indirect tax subsidies that the Postal Service received from 1972 through 1986. One is in the area of annuitant health benefits, and the other is in the indirect subsidy for the COLA associated with the Civil Service Retirement Program.

Congress addressed the health benefit program in 1986, and effective October 1, 1986, we began paying the cost of health benefits for Postal Service employees who retired after that date.

The one remaining subsidy that has not been addressed is the subsidy called the COLA for annuitants under the Civil Service Retirement System. We are prepared to assume that responsibility, Mr. Horton, and members of the Committee, but that begs the important question—how far does that responsibility go?

In our judgment, it goes to a prospective retiree only. We believe that that cost should be apportioned for Postal Service years of service, which means netting out other Government service, specifically military service and, more importantly, Post Office Department service. We also believe that the cost should be amortized over some reasonable period of time.

Our actuaries tell us that period of time should be 20 years. Now, for a specific response, then, to your question, looking at a 5-year period, this cost would start at something around $15 million and go up to about $100 million in the fifth year.

We think that if we can work with you to establish an equitable approach to this indirect subsidy area, a fair and responsible program can be put into place. One that meets your objectives, and also is fair to the mailing public.

Let me just say here that we are talking about a complicated issue.

Mr. HORTON. I understand that. That is why I wanted to get this on the table. I think it would be helpful if we got a letter from the Postmaster General setting forth specifically that information, so when we get to the floor with this matter, if any questions are brought up, we will have the specific information that we can communicate with our colleagues.

I think that it is important for us to understand this, and that may be one of the problems we had over in the Senate. I think that we could work it out, and get it clarified, so that we do not have the problem that we had before on the off budget measure.

[The following information was furnished:]

This is to follow-up on your request for a better understanding of the funding of Civil Service Retirement cost of living adjustments.

FUNDING OF CIVIL SERVICE RETIREMENT COST OF LIVING ADJUSTMENTS

Issue: Federal government funding of cost of living adjustments (COLAs) provided to Postal Service retirees under the Civil Service Retirement System (CSRS).

Background: The Postal Reorganization Act (PRA) created the USPS as an independent establishment of the executive branch of the federal government beginning July 1, 1971. This Act requires postal rates and fees to provide sufficient revenues so that total estimated income and appropriations will equal total estimated costs. The Act also authorized public service appropriations, which started at ten percent of the FY 1971 budget but have declined to zero, to contribute toward the public service cost of a system serving all communities.

The Post Office Department had been a heavily subsidized operation, which was not responsible for most employee benefit costs and still ran up operating deficits in the neighborhood of 25 percent. As recognized by the drafters of the PRA, it was not feasible for the Postal Service immediately to finance all postal related costs beginning July 1, 1971 and manage to operate at a break even level. It was further recognized that certain employee benefit costs left over from prior operations of the old Post Office Department (POD) should continue to be a taxpayer responsibility. For both of these reasons, the Postal Service at first was not made responsible for any unfunded liabilities of the Civil Service Retirement System after the standard employee and employer contributions.

The Postal Service currently contributes 7% of basic pay to the CSRS. Under legislation added in 1974, it also now pays for any increase in the unfunded liability of the CSRS attributable to increases in basic pay. These costs are amortized over 30 years. The contributions and unfunded liability payment made by the USPS in 1988 amounted to $ 1.6 billion. The Postal Service still does not make any payment related to cost-of-living adjustments, which are provided to postal annuitants by law instead of by action of the Postal Service. But under the Omnibus Budget Reconciliation Act of 1987, the Postal Service was required to make a one-time deficit reductions payment to the CSRS in the amount of $350 million.

The Postal Service has acknowledged that it should fund costs associated with its operation. As related to the funding of retiree COLA costs, a questions arises as to what portion of these costs are primarily the responsibility of the USPS and what portion are the responsibility of the federal government. This is important because the PRA specifically states that "All liabilities attributable to operations of the former Post Office Department shall remain liabilities of the Government of the United States."

Retirement benefits earned are predicated on an employee's total years of service. Accordingly, the cost of COLAs for postal employees who retire prior to July 1, 1971, Postal Reorganization Date (PRD), should remain the responsibility of the federal government. Likewise, the cost of COLAs for postal retirees who were hired after July 1, 1971 may properly be considered the responsibility of the USPS. For those employees who retire after July 1, 1971 after working for both the USPS and the POD, some apportionment of cost is appropriate.

It's interesting to note that at postal reorganization, provisions were made for federal government funding of annual leave already accrued by POD employees, yet no provisions were made for the funding of other accrued employee expenses. Consequently, no provisions were made for the funding of either employee retirement COLA costs or retirement health benefit costs related to years of service with the POD.

When reviewing the composite of current postal retirees, it is apparent that a significant portion of these individuals are receiving benefits which relate to service prior to PRA. The following chart provides information pertaining to postal annuitants as of September 30, 1987.

Postal Service Category	Number			WT. AVG. Percentage	
	Annuitants	Survivors	Total	POD	USPS
POD only	54,224	72,317	126,541	26	-0-
Mix-POD & USPS	292,652	61,034	353,686	51	21
USPS only	7,885	2,979	10,864	-0-	2
Total	354,761	136,330	491,091	77	23

The "Weighted Average" percentages for the "Mix" category are calculated based on the USPS service compared to total service. For the "Annuitants", the average total service is 28.1 years, of which 8.6 years is with the USPS. For "Survivors", the average total service is 25.2 years, of which 5.7 years relates to USPS service.

Of the current approximately 520,000 USPS employees covered under the Civil Service Retirement System, approximately 219,000 were hired after postal reorganization and the remaining 301,000 have a mix of USPS and POD service.

USPS Position: The Postal Service believes that any USPS responsibility for retiree COLAs should be applied prospectively to new retirees only, reasonably apportioned between USPS service and other government service and amortized over the retirees' life expectancy.

Other Proposals: The Office of Management and Budget (OMB) has proposed that the USPS fund the cost of all postal retiree COLAs. This would include both POD and USPS retirees. Other alternatives include apportioning the cost of COLAs for all retirees based upon USPS years of service to total years of service. Five year cost impacts of these proposals are as follows:

FY	USPS 1/	OMB 2/	Col. 2 App. 3/	All-20 Yrs 6/	All 20 Yrs App. 7/	Col. 1 Not App. 4/
1990 5/	$-0-	$ -0-	$ -0-	$ -0-	$-0-	$-0-
1991	15	282	151	175	94	28
1992	33	540	302	335	187	59
1993	57	767	442	475	274	99
1994	84	994	584	616	366	143

1/ New retirees; amortized over 20 years, apportioned for USPS service

2/ All retirees; amortized over 10 years

3/ All retirees; amortized over 10 years, apportioned for USPS service

4/ Same as 1/ but not apportioned

5/ No COLA costs are projected for FY 1990 based on OMB's assumption of a COLA freeze until FY 1991

6/ All retirees; amortized over 20 years

7/ All retirees; amortized over 20 years; apportioned for USPS service.

Mr. GILMAN. Would the gentleman yield just for a point of clarification.

You mentioned that annuitants are—their health plan is being picked up by the Postal Service, post 1986, is that correct?

Mr. COPPIE. That is correct.

Mr. GILMAN. What about prior to 1986? I understand that that is a substantial sum. I think that OPM estimated that to be about $792 million.

Mr. COPPIE. That may well be correct if you include Post Office Department service, Mr. Gilman. But what I am pointing out to you is that if you go back into the legislative history of the Reorganization Act, Congress specifically said that it did not want certain costs to be imposed on the Postal Service in the early years of reorganization, because it would represent too much of an impact on postal rates in this country.

The two areas that were specifically referred to are annuitant health benefits and COLAs. What I am saying to you is that the health benefit program was specifically addressed in 1986——

Mr. GILMAN. For post-1986?

Mr. COPPIE. For post-1986.

Now, you want the Postal Service to pay retroactively, and if we are directed to do that, obviously we will carry out the requirements of public law.

But I want you to understand the consequence of that for the mailing public in the United States. The consequence is going to be an enormous additional cost that we think is unjustifiable, and moreover is going to have an important impact on postal rates in this country.

Mr. GILMAN. And just for my colleagues' edification, that is estimated to be $792 million for pre-1986 funding that is picked up by the Federal budget? So it is subsidized to the extent of close to $800 million.

Mr. HORTON. Well, I think that it would be helpful for us to have those figures, and also to have a statement from the Postmaster General covering this subject.

Mr. FRANK. I would be glad to furnish it.

[The information follows:]

This is to follow-up on your request for a better understanding of the Postal Service retiree health benefit costs.

US POSTAL RETIREE HEALTH BENEFIT COSTS

Issue: Federal government payment of the employer's portion of health insurance premiums for survivors of postal retirees and for postal employees who retired prior to October 1, 1986.

Background: The Postal Reorganization Act (PRA) created the USPS as an independent establishment of the executive branch of the federal government beginning July 1, 1971. This Act requires postal rates and fees to provide sufficient revenues so that total estimated income and appropriations will equal total estimated costs. The Act also authorized public service appropriations, which started at ten percent of the FY 1971 budget but have declined to zero, to contribute toward the public service cost of a system serving all communities.

The Post Office Department had been a heavily subsidized operation, which was not responsible for most employee benefit costs and still ran up operating deficits in the neighborhood of 25 percent. As recognized by the drafters of the PRA, it was not feasible for the Postal Service immediately to finance all postal related costs beginning July 1, 1971 and manage to operate at a break even level. It was further recognized that certain employee benefit costs left over from prior operations of the old Post Office Department (POD) should continue to be a taxpayer responsibility. For both of these reasons, the Government contributions under the Federal Employees Health Benefit Program for retired employees and their survivors continued to be funded by the Treasury.

From July 1, 1971 through September 30, 1986, the federal government paid 100% of the employer cost of health insurance for all retirees of the POD and all new retirees from the USPS. Under the Consolidated Omnibus Budget Reconciliation Act of 1985, P.L. 99-272, the Postal Service began paying the employer cost of health insurance for all retirees from the USPS after September 30, 1986, prospectively.

While this 1985 Act was enacted in part as a budgetary reduction measure, it also was intended to address growing concern relating to hidden federal subsidies to the USPS. By assigning the Postal Service prospective liability for new retirees, it in effect made a rough allocation of responsibility between the Government and the Postal Service aproximately according to employee time put in before and after Postal reorganization.

This allocation is easily demonstrated through the following 2 examples. If an employee retired on July 1, 1971, the first day of existence of the Postal Service, with 30 years of POD service, the liability for the employer share of his/her health insurance costs during retirement should be paid by the federal government and not the Postal Service. Clearly, in this case, the employee performed no service for the USPS. On the other hand, an employee who retirees on October 1, 1986 with 30 years of service, has worked one-half of his/her career with the POD and one-half with the USPS. Their cost of health insurance during retirement should be allocated between the federal government and the USPS. In essence, P.L. 99-272 provides an allocation of costs between the federal government and the USPS by the federal government funding the cost for all retirees through September 30, 1986 and the Postal Service funding these costs for all new retirees after this date.

In fact, it may be possible that the allocation of costs provided under P.L. 99-272 may place more responsibility on the Postal Service for costs related to the POD than it places on the federal government for costs related to the USPS. The following chart provides information pertaining to postal annuitants as of September 30, 1987.

Service Category	---------Number------- Annuitants	Survivors	Total	WT. AVG. Percentage POD	USPS
POD only	54,224	72,317	126,541	26	-0-
Mix-POD & USPS	292,652	61,034	353,686	51	21
USPS only	7,885	2,979	10,864	-0-	2
Total	354,761	136,330	491,091	77	23

For the "Mix" category, which includes retirees with both POD and USPS service, the "Annuitants" have an average total service of 28.1 years, of which 8.6 relates to USPS service. For "Survivors" in this category, the average total service is 25.2 years, of which 5.7 years relates to USPS service.

Of the current approximately 520,000 USPS employees covered under the Civil Service Retirement System, approximately 219,000 were hired after postal reorganization and the remaining 301,000 have a mix of USPS and POD service.

USPS Position: The Postal Service believes that P.L. 99-272 provides a reasonable method of allocating the costs between the USPS and the POD. While not necessarily the most precise methodology to insure that the federal government finances all liabilities associated with the Post Office Department, it is straightforward and easily administered.

Other Proposals: The Office of Management and Budget (OMB) recently proposed that the USPS fund the employer health insurance costs for all postal retirees. This would include both POD and USPS retirees. Other alternatives include apportioning the health insurance for all retirees based upon USPS years of service to total years of service. It has also been proposed that the current costs paid under P.L. 99-272 to be further apportioned based upon years of service. Five year cost impacts of these proposals are as follows:

FY	P.L. 99-272 1/	OMB 2/	OMB Appor't 3/	4/
1990	$ 191	$ 983	$ 353	$ 117
1991	287	1,203	473	181
1992	408	1,453	619	263
1993	558	1,726	841	366
1994	742	2,065	1,086	504

1/ Most recent Office of Budget estimates included in the FY 1990 President's Budget as of 9/30/88. Includes costs for new retirees after 9/30/86 only.

2/ Per OMB's legislative initiatives for FY 1990. Equals projected costs of initiatives, including costs currently being paid under PL 99-272.

3/ Column 2 (OMB) except apportioned for USPS service.

4/ Column 1 (PL 99-272) apportioned for USPS service.

Mr. HORTON. Thank you.

Mr. MCCLOSKEY. Thank you very much, Mr. Horton. I appreciate your questions.

Mr. Chairman?

Mr. LELAND. Thank you, Mr. Chairman.

Let me echo the sentiments of my colleagues.

I want very much for you to have a long, extended stay as Postmaster General. We appreciate the kind of cooperative effort that you have established with our committees as well as the Congress. I think that for the stability of the Postal Service, it would be helpful if you would in fact commit to serving no less than five years from now.

Mr. FRANK. Sir? [Laughter.]

Mr. LELAND. Mr. Frank, let me ask you a few questions. I know that time is far spent today.

Postal Rate Commission Chair Janet Steiger has made a proposal for extending the time between rate proceedings from three to four years, with a review every two years.

What do you think about her proposal?

Mr. FRANK. Well, I am glad that she agrees with me that changes are needed, but her proposal, which she put forward, as she indicated the other day, more as kind of a stalking horse to generate this type of discussion, I think her proposal would reduce flexibility.

This puts us in lockstep of time, and it takes away the authority and the ability to move of the Postal Service itself.

I do not like, and I suppose that she does not like—although she has never said so—the 10-month hearing period. This is really very difficult, in these times now, to have to wait 10 months.

To force us into that kind of lockstep, I do not think it would work. We need experimental rates, we need discounts and barcoding and right now, every one of these hearings takes 40,000 pages of testimony.

We really do need some changes, but I do not think that to make the process more rigid rather than less is the way to go.

Mr. LELAND. Let me ask you, too, going back to the proposal—I will not go through the whole question—but let me ask you this. Are you considering hiring any consultants in the future, bringing in some outside advice about the Postal Service?

Mr. FRANK. Well, I do not know of anybody like Ross Perot, but we do hire consultants. We have EDS working for us—another one——

Mr. LELAND. Who are those guys? I am kidding.

Mr. FRANK. But not as comprehensive overview types of things, that do not at least initially involve any profits.

But we are doing a number of other things. We have an enormous effort going with the mailing industry itself—our worksharing committee, our advanced barcode committee, our Mailers Technical Advisory Committee. They have been moving with our people into that breach.

No, I do not see a replacement for Mr. Perot.

Mr. LELAND. Last year, the Postal Service chose to meet the Congressionally mandated cutbacks in operations by cutting service.

In the present fiscal year, more cuts are required. How are you coping with them?

Mr. FRANK. We are required to write a check for $270 million at the end of this fiscal year. Perhaps Mr. Coughlin would like to talk about the ways that we are achieving that.

Mr. COUGHLIN. Yes, Congressman.

It is essentially an extension of several of the actions that we put into place during 1988. Most of the savings this year are coming out of reductions or controls on administrative cost. There are some actions that we have continued over from 1988, affecting certain transportation services.

Those are the critical things. We also, as I think you are aware, have eliminated collection and processing service on Sunday, and that remains in place. Those are probably the three primary areas contributing to the reduction this year.

Mr. LELAND. I did, Mr. Chairman, write a letter to Chairman Ford earlier this month, outlining some of those areas. I would be happy to make that available to you.

Mr. Chairman, could we keep that open? Thank you.

Does the Postal Service have any data suggesting that the need for electronic cash transfers are not being handled adequately by the private sector?

Mr. FRANK. Well, let me be more candid than perhaps I should be.

This is a valuable function that a number of our customers have asked for. We process, I believe, 140 million postal money orders per year.

A certain proportion of those would like to transfer cash, and somebody's kid is in a small town and he needs money—I would think that the easiest way to get him money would be to go to the local Post Office and have it transferred.

Western Union is about the only one which provides that service now, and they service some 750 cities—a lot of agencies, but nevertheless, 750 cities.

Well, obviously our 40,000 locations would be a total coverage of the United States. So that does represent a need.

However, recent news reports, including this morning's paper indicate that Western Union has had its credit rating downgraded and this wire transfer business is a very important part of their income.

I do not want the Postal Service to be the cause of putting under a famous and valuable part of our business scene. So we have completed our work, as Chairman Setrakian indicated. We have put it on the shelf, and we will not offer it, unless one of two things happens—either Western Union is not able to provide the service, or Western Union sells the service to a highly solvent buyer, in which case we would not have much compunction about competing.

Mr. LELAND. Do you still have visions of expanding into banking services, money transfer service, and so on, by the year 2000?

Mr. FRANK. I think that by the year 2000, Mr. Chairman, that our distribution system—because we will not be closing Post Offices, but adding to them—will be even more unique than it is right now.

It is possible that we will see a lot of bank branches closing throughout the United States. If that occurs—it might, and I emphasize might, because we have done no studies on it—it might be useful to be the receiving and paying agent for those banks that used to have a branch there and do not anymore.

But we ourselves certainly do not intend to go into any banking operations. But could we do it as an agent for one or more banks that were serving the community? We could, and in Alaska we do.

We accept State checks drawn on the energy fund up there in 63 communities where we have offices and there are no banks, at the request of the Governor up there.

Mr. LELAND. Mr. Frank, a few weeks ago the Eastern Regional Postmaster was asked to resign. There were allegations made that racism was a factor.

Will you please explain to us the circumstances surrounding this situation and why you took the action that you did?

Let me say, before you respond, that one of the reasons why the possibility of racism was raised was that it was the first time in recent history that a top Postal manager was relieved because of job performance. Does this signify change in policy?

Mr. FRANK. Well, I do not think that it was racist or racially-oriented when he was put in that position, and I do not think that it was racial when we agreed that he should not be in that position anymore, and it will not be racial when his replacement is named.

Mr. Coughlin, who is the direct supervisor, has been interviewing replacements for that position, and as it happens, every one of the people that we have interviewed was a minority.

We are looking for the best person. We have a very high opinion of Mr. Thomas. He was offered other positions in the Postal Service. We just basically had a long-term disagreement on how that region should be run.

I am distressed, as I wrote you the other day, that some people are using words like incompetent and so on. I can assure you that we have never used that.

As far as job performance being grounds for being dismissed, or asked to change positions, as I understand your question, the answer is you bet.

Mr. Coughlin, do you have anything to add?

Mr. COUGHLIN. I guess there are only a couple of things that I would add.

I think that it is unfair to Johnny Thomas, some of the things that have been written. John Thomas has had a long and very successful career. As Mr. Frank pointed out, there were some circumstances that led us to conclude that it was best to change that current job relationship.

On the other hand, too, we do not make it a practice of trying to parade in front of the world changes in job leadership that occur because of performance. We are not interested in publicly humiliating anybody.

But I can assure you that there have been changes because of performance, and they have involved white males as well as others.

Mr. LELAND. I appreciate that.

Let me suggest that this situation focuses attention on the lack of opportunities, in many instances, for qualified minorities and women at top positions at the Postal Service.

This has been the case in almost the entire 10 years—for all of the 10 years that I have dealt with the Postal Service as a member of Congress. There has been very little movement, if you will, in the area of upward mobility for minorities and women in the Postal Service.

Are you trying, Mr. Frank, as a part of your policy and philosophy and your leadership, to do something about that—to catalyze the movement of minorities and women into positions?

Mr. FRANK. We really are, and it is not lip service. It is not to have something to respond to you about. I really care, and the rest of us really care.

We are inadequate in our top 37 positions in both those areas, but we are making enormous strides in the other positions below that. We have 75 divisions, and about 19 percent of those, I believe, are headed by blacks.

The division general manager's job is the stepping stone in our operation to move up, and as you know, they are relatively autonomous. I am very pleased, and I guess that the best illustration of being pleased would be that Mr. Coughlin and I, to a lesser extent, have interviewed applicants for this open job.

I believe that virtually every one of those applicants was an operating person in a division. As it happened, all five of the finalists were minority. So we are making progress.

Our top echelon, consisting of about 1,200 employees, has shown a 158 percent increase in representation of women over the past five years—that is still a little less than 10 percent, but making progress. 21 percent of our workforce is black, and so are 19 percent of the division managers. We are making progress, and I am confident that filling this open position will help us.

We are not there yet, but we really are making progress.

Mr. LELAND. Well, let me ask you a Republican question. That was a Democratic question. Now let me ask you a Republican one.

I saw in the comprehensive statement that the Postal Service has once again failed to reach even a 10 percent figure for contracting with minority businesses.

Can you tell us what the actual percentage was?

Mr. FRANK. Well, I can give you some figures. I am not sure that I know what the exact figure is, but we will furnish it to you.

I know that those purchases have gone up from $8 million in 1978 to $155 million in 1988. That is a lot of dollars.

The number of contracts has more than tripled.

Mr. LELAND. In the last year?

Mr. FRANK. No, from 1979.

Mr. LELAND. I am sorry.

Mr. FRANK. No, we took some setbacks in 1988. A lot of it has to do with the Omnibus Budget Reconciliation Act of 1987. The cut backs in some of our procurements were enormous. We have a 100,000 vehicle contract with Grumman, and we do not count subcontracts, some of which went to minorities, in response to your question.

Well, that is obviously going to send that percentage down. We cannot do anything about that.

We are making a real effort. I spoke at a meeting here trying to attract some 400 potential contractors. We are conducting procurement fairs out in the field, and we are really making an effort.

I will furnish you with the figure, and it is less than 10 percent. But the number and the dollars, I think, are getting more satisfactory.

[The information follows:]

CONTRACTING WITH MINORITY BUSINESSES

Over the past 10 years, the Postal Service has recorded steady annual increases in our minority award efforts. For example, in Fiscal Year 1978 we awarded 2,918 contracts to minority firms; in 1988 that number had increased to 7,402. In terms of dollars, 1978 participation was $8.4 million; in 1988 it was $155.5 million.

In Fiscal Year 1988, the overall contracting levels were severely lowered from the prior years levels by the Budget Reconciliation Act. For example, more than $1 billion in construction projects was deferred and the dollar value of contracts awarded for supplies and services was halved.

The focus on fewer, larger procurements has affected the minority participation. While contract awards to minority firms increased from 6,979 in Fiscal Year 1987 to 7,402 in 1988, the percentage of contracts with minority businesses was 4.7. The increase in the number of contract awards took place at the Division level, where smaller, local purchases are the focal point and where new participants can be effectively and readily introduced to the Postal Service's program.

Mr. LELAND. I appreciate that, and I also appreciate the opportunity for our men to participate with your personnel in Houston, as a matter of fact, in my district, at one of those fairs that you alluded to.

That was very helpful to all of us, and I have gotten nothing but praise since that time. I appreciate that, and hope that you can do that all over the country.

Thank you.

Mr. MCCLOSKEY. Thank you, Chairman Leland.

Mr. Gilman?

Mr. GILMAN. Thank you, Mr. Chairman.

Again, I want to welcome our Postmaster General. We again congratulate him on the successful completion of his first year in office, and hope that it continues for many more years to come.

Mr. Postmaster General, I note that the net loss that was reported in 1988 was $597 million. What do you anticipate the bottom line to be this coming year?

Mr. FRANK. I should point out that the $597 million loss is after writing a $510 million check to the Treasury. I sound like a broken record, but it is the result of the Budget Reconciliation Act.

Mr. GILMAN. So actually, had you not written the check, we would have had what—about an $87 million loss for the whole year?

Mr. FRANK. Well, that is one way to look at it. We have a number of accountants who say yes and no. But it certainly does not help to write a $510 million check.

Mr. GILMAN. How did you list that in the accounting?

Mr. FRANK. Sir?

Mr. GILMAN. How was that noted in the accounting?

Mr. FRANK. As an expense.

Mr. GILMAN. Not a gift to the Treasury?

Mr. FRANK. No.

Mr. GILMAN. No donation, no tax-free donation?

Mr. FRANK. Maybe a new category.

Our budget this year is $612 million plus, so it kind of mirrors, really, the last 10 years of the Postal Service.

We have had five gain years and five loss years, with a net at the end of the 10 years of $345 million.

Mr. GILMAN. Plus? On the plus side?

Mr. FRANK. Plus, out of $270 billion of revenue.

There is a chance that our volume mix may bring down that $612 million figure somewhat. But that is the figure that we are at right now.

Mr. GILMAN. $612 million deficit?

Mr. FRANK. Yes, sir.

Mr. COPPIE. $612 million net income.

Mr. FRANK. Net income?

Mr. COPPIE. Yes.

Mr. GILMAN. All right, so that would be on the positive side.

Mr. COPPIE. We would want the record here to show, Mr. Gilman, as you of course know, that we are required by law to break even.

As the Postmaster General has pointed out on more than one occasion, he is thinking of retaining Neil Sedaka, perhaps, as a consultant to write a song, "Breaking Even is Hard to Do." [Laughter.]

Mr. FRANK. And again, Congressman, we will be writing a $270 million check.

Mr. GILMAN. If you are not off budget.

You mentioned the automation progress. Do you anticipate having the bar code installed in a few years—fully installed around the countryside? What is the status of this?

Mr. FRANK. Well, we have said that we want every item with which we deal to have a barcode on it by 1995. That means every letter, every magazine, every advertising piece, every——

Mr. GILMAN. Does it look like you are going to be on schedule for this?

Mr. FRANK. Yes. We have some technical things yet to overcome, but it is going well.

This year, to give you an idea, in 1987, only a few months ago——

Mr. GILMAN. Will that result in substantial savings?

Mr. FRANK. Yes, we believe it will cause us not to have to hire an additional 100,000 to 125,000 people. We are not suggesting by any means that we will not grow in employment—we will—but we will grow that much less, which at 1995 rates will be somewhere around $5 billion a year.

Mr. GILMAN. With regard to your work force, some 800,000—what percentage of those are veterans?

Mr. COPPIE. Congressman, it is just slightly over 50 percent, if I recall the numbers. It is in the neighborhood of 51 percent, and it is starting to slide down.

Mr. GILMAN. And what percentage are handicapped?

Mr. COPPIE. On a percentage basis, I do not recall exactly. But I think that the number who are categorized as handicapped in our records is something like 34,000.

Mr. GILMAN. I want to commend you for your handicapped program. I know that I have had several opportunities to take advantage of it, and you are one of the few employers who really make an effort to do something about employment of the handicapped.

Mr. COPPIE. Well, it is nice to do the right thing, but they are also very valuable employees and they serve us well.

Mr. GILMAN. It is good to hear that.

When we discussed with some of the budget people the off budget proposal, they talked about trade offs, and that is why I raised the issue earlier.

Do you see any trade offs that might be possible?

Mr. FRANK. Yes, I do.

Mr. GILMAN. Could you elaborate?

Mr. FRANK. And, of course, there are trade offs happening now, with the new Federal Employee Retirement System.

We are taking all of that burden now—none of it is going through the old Civil Service Retirement System. That costs us an additional $700 million a year—a lot of money.

In addition, as Mr. Coppie has indicated, we would like to work on a way in which we could begin to take over the COLA and health benefit requirements of retirees and annuitants, provided that we do not have to pay for their other Government service. It just does not seem logical that we would do that. It has to be phased in.

We have a schedule along that line, and of course it just goes up as more people get closer to retirement. So I think that will go a long way towards eliminating the argument that we are getting some sort of indirect subsidy.

Mr. GILMAN. You are already doing that now?

Mr. FRANK. No, sir. But we do have such a proposal.

Mr. COPPIE. We are paying the health benefits.

I think, Mr. Gilman, that I want to underscore what Chairman Setrakian said concerning the same question, and that is that the most important trade off is the fact that if we are taken off budget in fiscal year 1990, the impact on the Federal deficit will be a $2 billion reduction over a 5 year period—1990 through 1994.

Under certain assumptions, which we consider fair and valid in this context, the reduction in the Federal deficit will be $7.5 billion.

It is important to keep in mind that is a reduction of the Federal deficit. It is also important to keep in mind here that when we are on budget, we impact the Federal deficit. We do not impact what the primary objective is in reducing that objective, and that is reduce the amount of money that the Government borrows in the credit markets.

We have no relevance to that issue whatsoever, but we do impact the deficit in the aggregate, so taking us off budget corrects that and moreover gives a more favorable reflection of the Federal deficit.

Mr. GILMAN. What are the eventual savings to the Government by the Postal Service phasing in the COLA proposal that the Postmaster General talked about.

Mr. COPPIE. Well, if we look at it for a 5 year period, under our proposal, it starts at about $15 million and goes up to $100 million in the fifth year. It is going to escalate after that, but we only have

the projections for a five-year period. Our actuaries could take it out for whatever period of time that you want.

Mr. GILMAN. That would be a substantial savings to the overall budget by your assuming that?

Mr. COPPIE. That is correct, Mr. Gilman.

Mr. GILMAN. Thank you.

Thank you, Mr. Postmaster General.

Mr. FRANK. Thank you, sir.

Mr. MCCLOSKEY. Thank you, Mr. Gilman.

We have been joined by Congressman de Lugo.

Mr. DE LUGO. Thank you very much, Mr. Chairman.

It is good to be here with you, the Postmaster General, and good to be back on the committee, too. It took some doing, but here we are.

And I want to apologize for being late. I was over at another committee hearing with the Secretary of Interior.

I was going over your statements, Mr. Postmaster General, and I want to congratulate you on the good news that you brought to the committee this morning.

I only have one question for you and it deals with my district. Alan Kane has been doing an extraordinary effort to improve the service to the Virgin Islands following a joint hearing that was held by these two subcommittees last June.

For that I want to thank both Chairman McCloskey and Chairman Leland.

Serious problems existed, and they still exist, but Alan Kane is trying to institute changes in the system to speed up the delivery of mail to the Virgin Islands. While it is too early to see any significant improvement, I am hopeful that his proposals will bring about the desired results.

While he is focusing on delivery of mail to the islands, and the quality of on-island service, I still have one serious concern about getting the mail off the island and to the Mainland.

Right now, all mail leaving the Virgin Islands is sent to Puerto Rico for cancellation. This means extraordinary delays in flying the mail to San Juan, getting it loaded onto trucks at the airport, taking it through traffic to old San Juan or Hato Rey, taking it off, processing it through the machines, reloading it, et cetera.

We used to cancel Virgin Islands mail in the Virgin Islands. This was good for tourism and it was good for business, and it was good for the mail, too.

Then, as I understand it, Puerto Rico needed the Virgin Islands mail volume to justify installation of new equipment, so our mail was sent to Puerto Rico.

Now, however, I understand that Puerto Rico's volume has grown so that more equipment has been ordered, and they no longer need our mail.

I would like to ask that Virgin Islands mail be cancelled in the Virgin Islands. That will speed up off-island mail, benefit our tourist economy, and quite frankly, we will take the out-moded, lower volume machines that Puerto Rico is replacing and use those.

But we want our own cancellation, and I am asking for your personal assistance in this, Mr. Frank.

Mr. FRANK. That is very persuasive, and I will see if I can negotiate anything for you with Mr. Coughlin. [Laughter.]

Mr. DE LUGO. A surprise.

Mr. COUGHLIN. Congressman de Lugo, I am sure that Alan Kane would appreciate your comments. I was with him this morning, and I know that he is working hard on that subject. It is not an easy issue or problem to deal with there.

I do not know the details of the circumstances that you described involving cancellation. I promise you that we will take a look at those circumstances and what the impact is on both the service and the cost of handling. If it is appropriate, we will do what you ask.

In any event, I promise that we will get back to you some more specific response.

Mr. DE LUGO. Thank you very much.

Thank you, Mr. Chairman.

Mr. MCCLOSKEY. Thank you very much, Mr. de Lugo. I do not know a better advocate for a constituency than you, so I know that things will improve.

It is getting late, and let's face it, all of us have numerous questions. Perhaps I could try to hit five or six fairly, direct simple questions, Mr. Frank.

I would like to say that given all the discussion previously about the 11 administration proposals for Postal Service cost savings, and as you indicated most correctly, they have an unfortunate and ideological thrust that is going to result in a brutalization and inefficiency in Postal operations.

In that sense, it does not make a lot of difference how they add up. But in deference to Mr. Ford, and for purposes of dealing fairly and firmly with information, I know that you have some figures worked up.

If we can get an analysis and your cost estimates on all 11 of those items and anything else that you would like to add to it—that would be wonderful.

Mr. FRANK. Well, we have the 11 items with us, and would be happy to file them today.

Mr. MCCLOSKEY. Yes, if you could give them to us soon—it does not have to be today—that would be wonderful.

Mr. Frank, it is in your statement, but I would like to comment again on the salary situation. What are you facing in top management with constraints on salaries?

Mr. FRANK. Well, we run a hybrid situation here. It is a business and a public service.

It is quite a business—$40 billion makes us as large as the three or four largest corporations in the country. Many of our people operate portions that themselves are larger than a Fortune 500 company.

Unfortunately, many of our employees have highly intelligent children that want to go to college, and I guess that is the biggest single impact—getting enough money to go to college.

I do not want to embarrass anybody, but Lou Cox, our general counsel, graduated from Harvard and is, I believe, one of the great attorneys of this country. He runs a wonderful legal department.

He is earning not much more than what Law Review graduates from Harvard now get paid during their first year on the job. It is simply outrageous—just outrageous.

We have many, many other examples. People work at the Postal Service because they care, because they are excited by the scope—but sooner or later, that does not wash at the Safeway.

I do not want to get too worked up, but I believe that if we do not get some relief within the next couple of years, we could have a disaster on our hands.

Mr. McCLOSKEY. I appreciate that.

You have mentioned locality pay from time to time. Can you comment on the feasibility of that and what you see as the advantages and disadvantages?

Mr. FRANK. Well, the matter of locality pay for craft workers is a very controversial thing, and frankly, it does not have the priority with me that locality pay for transferees does.

Right now—right now—when we talk to people about transferring, many of them say that it represents a financial burden to them. Not a promotion, not a chance to move up, but a financial burden. They have to buy a house in an expensive area, and they have to relocate and all the rest.

In many areas of the country you have higher taxes. I note that taxes in New York City are some 10 percent higher than they are in Nevada, for example, and that comes right off the top.

I do think that we need to make some adjustments, and we do not have the room with which to do it. Right now, there is a $4,500 salary spread between the regional postmasters general, and the maximum, which is my salary. It is not possible to give incentives for people to relocate, or even repay them for the monetary loss that they incur when they relocate. It is not a good state of affairs.

Mr. McCLOSKEY. From time to time another item that you mention is increasing the number of casuals in the workforce. How promising do you find that to be? What scope do you think would be desirable or ideal, and could there be a problem, in effect, creating a sub-tier of disadvantaged employees?

Mr. FRANK. I think that it is possible. I do not know what proportion of casuals we need. We need more flexibility. That does not mean just casuals. It could mean more part-time flexible employees. It could mean—and I am attracted by it—a new category of employee called regular part-time.

More and more postal systems around the world are using regular part-time people who choose to work 12 and 16 hours a week.

Mr. McCLOSKEY. With equivalent pay and benefits?

Mr. FRANK. Yes, probably so, pro rata, at any rate.

Mr. McCLOSKEY. Right.

Mr. FRANK. And that is something that we will have to look at.

I certainly do not want to do anything to damage any existing employee, and I am sure that we never will.

But one of the strangest things about the Postal Service is that not one of our 40,000 Postmasters and station managers has any idea, accurately, what his or her mail volume will be the next day. We have no way to know that.

So, you need a shock absorber to absorb ebbs and flows of volume from day to day, and that means non-full-time people.

Mr. McCLOSKEY. Well, we can tell, depending on whether there is a pay increase or tax bill, or something like that. Not everyone has that advantage, I guess.

Mr. FRANK. Sir?

Mr. McCLOSKEY. I say, we can tell depending on whether there is a pay increase up, or a tax bill. [Laughter.]

I think that I know your opinion, but succinctly, what type of impact would an $823 million reduction in the Postal Service capital funds for the next fiscal year have on facilities and modernization? Can you talk about the five to ten year impact, very generally? I am sure that it is quite dire.

Mr. FRANK. Well, $823 million in itself is an incredible sum to cut back, but this would be the third of three consecutive years of cutbacks. That really makes it that much worse.

As you know, we stopped about 750 projects, and some of those will never be started again. The land is not available, or costs have gone up, or there are zoning problems.

I just really do not know how we can provide the service that the American people deserve if we have a third year of massive cutbacks.

Mr. McCLOSKEY. And again, privatization would loom in the event that we could not provide the services for lack of capital investment, would you not say that is the case?

Mr. FRANK. Well, I think that some people have suggested that is part of the plan—to degrade the service to the point where people would welcome privatization.

I do not know if that is the case or not, but that will be the result.

Mr. McCLOSKEY. Could you comment on your concerns on borrowing authority and its inflationary decrease since the 1970's?

Mr. FRANK. Yes, we were granted a borrowing authority of $10 billion in the 1970 Postal Reorganization Act. I think that we have made very careful use of it. We have a total now of $6.1 billion borrowed, so we have certainly not been profligate in any way.

But we have a $13 billion capital budget for the next 5 years, and there is no way that we can enter into contracts for large amounts of money beginning next summer—a year from this summer—without the knowledge that we can exceed the $10 billion ceiling.

It would take $30 billion today to buy what $10 billion bought in 1971. We have been careful, but we will exceed that $10 billion figure for planning purposes by mid-year next year.

It is really equally as important to us as the off budget bill.

Mr. McCLOSKEY. Now, a final question.

The Postal Service has been developing an automation based mail processing and distribution system since the advent of ZIP plus 4 in the late 1970's.

The Postal Service says that automation is the key to containing Postal operating costs. Now, with this automated technology finally being brought on line, the Postal Service is now saying that it is very difficult to integrate automation into its mail distribution scheme.

What is the problem? Have we seen any real reduction in postal operating costs as a result of the automation program? Have there been any demonstrable productivity achievements?

Mr. FRANK. Well, we have seen some dollar gains. The dollar gains, unfortunately, equalled the increase in health costs last year.

Another way of looking at it is that health costs would have increased anyway, so at least we were able to offset them.

Right now, our automation affects about 25 percent of our workhours, and 40 percent of our mail, as I indicated earlier, is readable by these machines. So all of our pressure right now is on 40 percent of 25 percent, which is 10 percent of the total.

So it is difficult to show productivity gains, but we will. We have increased the amount of mail barcoded from 26 percent in 1987 to 40 percent presently, and we will be at 100 percent by 1995.

So, we are doing the right thing. We are saving dollars, but the impact on productivity has not yet been great. As I have indicated in my written statement, that is to be expected when you are in the state of the art changing a 215 year old system.

Mr. MCCLOSKEY. I know that time is getting late, and there is a rumor that this process today has been so nervewracking for you that you must take a 2 week vacation, Mr. Postmaster General. [Laughter.]

Mr. MCCLOSKEY. But you have done a wonderful job.

I want to lean on you politically enough to ask you to do me a favor. Can you stick around and talk to me for 5 minutes? I have three young constituents from the Evansville area who would just love to meet the Postmaster General of the United States. They could talk to you about Postal closings and things like that, if that is all right. [Laughter.]

Mr. MCCLOSKEY. And I would just ask you—do you have any parting comment or suggestion that you did not have a chance to bring up, or that you would like to emphasize, sir?

Mr. FRANK. I think that the Postal Service is doing well. It has outstanding people. They really in many ways are inexplicably outstanding, given the compensation and sometimes the unwanted attention that our top people get.

It is in good hands. We know where we need to go, and we know how to get there. This is a battleship, a dynamic, changing environment in which we operate, but despite that, we are making progress.

We can see now where we need to go. The bar code is going to make a big difference. If we can improve employee morale—and I think that we are as they get around, but we have a long way to go—I think that we will continue to have a Postal Service that is the best in the world, and the least expensive in the world, which it is. That is something to be proud of.

Mr. MCCLOSKEY. Thank you very much, Mr. Frank. I really appreciate your excellent testimony today.

Thank you very much.

Mr. FRANK. Thank you, sir.

Mr. MCCLOSKEY. The meeting is adjourned.

[Whereupon, at 12:34 p.m., the committee was adjourned.]

[The following responses to written questions were received for the record:]

QUESTIONS FOR THE RECORD SUBMITTED
BY FRANK MCCLOSKEY

QUESTION: In the Postmaster General's speech before the Press Club a few months ago, he indicated that the Postal Service was conducting a study to look at other ways that it could contract out services. How is that study going? Can you provide any details on the types of services that are being studied?

ANSWER: Postal Service Senior Management has had a number of discussions regarding the subcontracting issue. Senior Management has concluded that it makes sense to explore options for expanding the use of contracting out as a strategy to effectively meet the demands on the system.

The Postal Service intends to pursue additional contracting out on a case-by-case basis. The Postal Service has concluded that contracting out the planned Remote Video Encoding System appears to offer sufficient potential benefit to warrant consideration. The Postal Service is proceeding with consideration of this option.

QUESTION: The PMG has mentioned in speeches that he is interested in the possibility of using locality pay. What type of impact would this have on the morale of postal workers? Don't you think rural workers would suffer due to their localities?

ANSWER: Locality pay could not be applied to bargaining unit employees without negotiations with collective bargaining representatives. If a proposal were to be introduced at negotiations with the rural letter carrier craft, its full impact would be discussed at that time. It would be inappropriate now to speculate on how those discussions might proceed.

QUESTION: Delivery problems have continued to bother the Postal Service. Studies done during the last several years by the third-class mailers have shown non-delivery rates for properly addressed mail to range from around three percent to as much as 14 percent. Your own August 1988, study indicated a non-delivery rate of up to 5.9 percent, the most likely figure being around 2.5 percent. Even this relatively low figure can have a significant impact on business mailers. What steps is the Postal Service taking

to improve the delivery of properly addressed mail? What do you think is the magnitude of the problem?

ANSWER: The Postal Service has candidly stated that there have been problems with non-delivery ever since USPS first surfaced this issue in an extensive study it conducted in 1981. The magnitude of the problem is, by no stretch of the imagination, in the range of 10-15%. Current estimates are that, of the mail consigned to waste, which is estimated to be 9% of the total Bulk Business Mail, approximately between 2-4% of this waste mail should have been delivered. However, the point is not the magnitude of the problem. The Postal Service's position has been, and will continue to be, any case of not delivering properly addressed Bulk Business Mail will not be tolerated.

The August 1988 study did indicate a non-delivery rate of approximately 2.6 percent, which included reporter error. Therefore, the actual adjusted figure would be lower. The non-delivery rate without adjusting for reporter error is statistically estimated to be between zero and 5.9%.

Another facet of the program to improve service and deliverability was focus group research. During the spring of 1987, focus groups were conducted with delivery unit supervisors, clerks, and carriers to gain insight as to the causes of non-delivery, and the perception and attitudes regarding Bulk Business Mail. Focus group research consistently raised the issue of endorsements. Endorsements are requests for ancillary services, such as, "forwarding and returned postage guaranteed," etc. Improper treatment of endorsed, undeliverable-as-addressed mail can be caused by endorsement placement, selection, definition, font, and use of unauthorized endorsements. In cooperation with the industry, a recommended set of mandatory endorsements and associated requirements were developed that must be met to qualify for the third-class rate. In addition to these actions, quality control procedures associated with undeliverable-as-addressed mail have been strengthened and trends have improved.

QUESTION: Many have criticized the postal rate making process for being too inflexible, cumbersome and expensive. Do you agree? Do you have any recommendations for changes in the rate making process?

ANSWER: The Postal Service believes at least three aspects of rate making are candidates for revision.

1. The process takes too long.

   The Postal Service requires five months to meet all the standards required for filing a case before the Postal Rate Commission, which then has ten more months to issue recommendations. It takes another month to review, adopt and implement the rate package. As a result, almost a year and a half in lead time is needed to adjust postal rates. That amount of lead time impairs the Postal Service's ability to respond in a timely manner to changes in the economy or competitive environment.

2. Too much data in too fine a level of detail are required.

   The Postal Service is required to submit a multitude of reports and thousands and thousands of pages of data. These onerous data requirements have at least two negative consequences. First, the rate process is lengthened as the Postal Service must spend extra time preparing the voluminous reports and the Commission and other interested parties must spend extra time trying to comprehend and analyze the reports. Second, the data the Postal Service must submit are often too complex to understand except for the most technically sophisticated parties or those with substantial financial resources to invest in expensive consulting help. This complexity may serve to discourage participation in postal rate making proceedings by many interested but relatively less technically sophisticated parties.

3. The process makes it difficult to test new ideas.

   Even for very short-term experiments of new or revised products, the Postal Service must conform to an extensive set of constraints and produce a considerable amount of data to justify tests of even the smallest scale. Moreover, the tests are subjected to intense scrutiny in trial type hearings. Consequently, the process inhibits the development and introduction of new products that benefit customers.

In conclusion, any changes in the rate making process should accomplish two goals. First, the complexity and expense associated with the existing system should be reduced. Second, contemplated changes should provide interested parties due process in examining and questioning the proposals.

QUESTION: The Postal Service has been developing an automation-based mail processing and distribution system since the advent of ZIP+4 in the late 70s. The Postal Service has stated that automation is the key to containing postal operating costs. Now with this automation technology finally being brought on line, the Postal Service is now saying that it's having difficulty integrating automation into its mail distribution scheme. What is the problem? Why haven't we seen any real reduction in postal operating costs as a result of the automation program? Has there been any demonstrable improvements that have benefited overall postal productivity?

ANSWER: First, automation is working and working well in the Postal Service. Postal Inspection Service audits of the Phase I and II single line Optical Character Readers indicate a positive return on investment of approximately 25 percent. Therefore, automation is in fact a key element to containing postal operating costs.

With regard to integrating automation into the distribution system, it has proved to be more difficult than anticipated. Automation, particularly multiline automation, has significantly increased the complexity of mail flow. This, in conjunction with the fact that the Postal Service is still deploying multiline equipment and attempting to manage a dual single line/multiline system, has caused what is seen as a short-term, transitional problem. Also, in the last year changing volume and mail mix patterns have caused some problems in matching manpower to workload.

In discussing automation as it relates to the total operating costs, it must be understood that the automation program is concentrated almost entirely on mail processing workhours which account for 25 percent of the total. At this time the Postal Service is able to fully automate approximately 40 percent of the mail. Therefore, in effect the Postal Service is working on 10 percent. So while automation is yielding a $250 million to $300 million a year savings, it is concentrated on a small part of the operation right now. The Postal Service's goals are to expand the positive impacts of automation beyond mail processing into the delivery function. The Postal Service does not, however, anticipate significant benefits from automation in delivery until 1992 or 1993.

Lastly, in the area of postal operating costs and productivity, the Postal Service has in the last year made some investments in certain areas throughout the country where there was a need to provide a higher level of service. This meant hiring additional people which usually translates into loss of productivity. Also, the Postal Service is serving an additional 1.5 million new addresses every year

that requires hiring more carriers and certainly does not increase productivity.

QUESTION: In its report to Congress, the Postal Service said it showed a 0.1 percent gain in total factor productivity. The Postal Service compares its performance against the Bureau of Labor Statistics' non-farm multi-factor productivity index. Last year non-farm productivity rose 1.0 percent. That's 9/10s of a percent better than the Postal Service's performance. What's happening to productivity? What do you plan to do to improve productivity?

ANSWER: In the 1988 Comprehensive Statement on Postal Operations the Postal Service total factor productivity was reported to be up 0.1 percent in Fiscal Year 1988 and grew at the same rate of 0.3 percent annually when compared to a similar measure for the private nonfarm sector of the economy published by the Bureau of Labor Statistics (BLS) for the 1971-1987 period. Because of lags in data availability, the BLS will not publish a 1988 comprehensive productivity measure for the private economy until October 1989.

The 1.0 percent productivity increase for the private economy in 1988 referenced is labor productivity, as reported by the BLS. The comprehensive multifactor productivity measures usually rise at a somewhat slower pace than labor productivity, but will likely be substantially higher than the average of 0.3 percent when reported this fall.

The aggregate private economy measures of productivity represent a diverse set of performances where productivity in some sectors is increasing substantially faster than the average and in others substantially slower. The appropriate expectation for productivity increase in the Postal Service in any particular year depends upon a number of factors and cannot be expected to be the same as that for any particular aggregative measure for the private economy.

QUESTION: What type of impact would a $823 million reduction in the Postal Service's capital funds have on facilities and modernization?

ANSWER: The proposed reduction of $823 million represents a 28 percent reduction in planned Fiscal Year 1990 commitments. Such a reduction would have a significant

impact on plans to get the capital program back on track, coming on the heels of the 50 percent reduction in planned capital commitments for Fiscal Years 1988 and 1989. This will further delay projects essential to modernize operations and improve efficiency and customer convenience. In effect, the original five-year plan will be stretched out over an eight- to nine-year period.

To meet this reduction, the following actions would be required:

- All Regional Customer Service facility commitments -- representing over 700 projects nationwide -- would be halted, except for $4 million per region for site acquisitions and contingency funds. Repair and alteration of existing facilities would continue.

- The following 14 new major facility projects essential to the processing network would be halted:

Brockton, MA	South Florida, FL
New Brunswick, NJ	Chicago, IL
New York, NY	Chicago North, IL
Newark, NJ	Chicago BMC, IL
Charleston, SC	Minneapolis, MN
Charleston, WV	Oxnard, CA
Jacksonville, FL	Van Nuys, CA

  The Regional Customer Services facilities and the major facility projects would be delayed at least one to two years, depending on revised priorities, site availabilities and cost escalations occurring in the interim. Facilities scheduled for Fiscal Year 1991 would likewise be delayed until Fiscal Years 1992 or 1993, and so forth, with the backlog of facility replacements continuing to grow.

- No reduction would be made to the Postal Service's mail processing equipment projects, which are the highest priority and represent the automation and mechanization necessary to improve productivity and efficiency. However, approximately $100 million would be taken from the Vehicles, Customer Services Equipment and Postal Support Equipment category. The Long-Life Vehicle commitment plan would not be affected.

QUESTION: The Postal Service keeps blaming its revenue shortfall on increased health costs and on the operational and capital spending constraints imposed by Congress late in 1987. Yet the Postal Rate Commission says it accounted for the effect of these factors when it recommended the new

rates, and that the Service should have more than enough money to compensate for these items. What accounts for the revenue shortfall?

ANSWER: The Postal Service has never blamed the difference between Fiscal Year 1988 R87-1 rate case estimates and actual results on health costs or the Omnibus Budget Reconciliation Act of 1987 (OBRA). The Postal Service has pointed out that these are two reasons the expenses increased in 1988, and that if OBRA had not been enacted the Fiscal Year 1988 loss would have been lower. Comparisons between actual and estimated Fiscal Year 1988 amounts made in the Annual Report and the Comprehensive Statement were to the Fiscal Year 1989 President's Budget, not the rate case. The Fiscal Year 1989 President's Budget reflected a net loss of $695 million for Fiscal Year 1988 and took into account the two most significant differences between the Postal Rate Commission's Fiscal Year 1988 estimate and actual results. These two differences were a higher level of workyears and an April versus June implementation of new rates.

The major differences between the Fiscal Year 1989 rate case estimates and the Fiscal Year 1989 estimates reflected in the Fiscal Year 1990 President's Budget are higher workyears and health benefit premiums which increased by about 24 percent in January 1989 compared to an 11 percent increase included in the rate case.

QUESTION: When does the Postal Service anticipate filing for the next rate increase?

ANSWER: The situation surrounding the need for a rate increase is reviewed regularly and the Postal Service is doing all that the Postal Service can to stay on a three-year cycle. That means the Postal Service will probably have to do a rate filing sometime between January and June of 1990. The actual increase in rates would follow a rate filing by about a year.

QUESTION: During a November Brookings Institution seminar on postal issues, the Chairman of the Board of Governors, John Griesemer, said that the Board had sent back the initial rate increase proposal because the rates for third-class were too low. Is this the proper way to set rates? What is your opinion about the level of rates for third-class mail?

ANSWER: As you know, I was not here during the chain of events that led to the filing of the R87-1 rate case. My understanding, however, is that a series of presentations were made to the Board and that the level of detail and the level of precision of these presentations increased as the Postal Service got closer to the time of the filing and as more of the materials supporting the case came together. When this kind of process occurs, decisions are made and reviewed, and a wide range of people share in the reasoning that goes into the decisions. The Board is one group that shares in the reasoning process. We consider very carefully the Board's review of rate proposals and we acknowledge the reasoning it provides. We then return to the drawing board, so to speak, and the process advances another step. Yes, I think it is appropriate to consider the Board's views in this way. I would hope that the Board listens to us and we listen to it. We are all part of a decision process.

The level of third-class rates recommended by the Rate Commission was somewhat higher than that proposed by the Postal Service at the time of filing. While I might have preferred the rates as filed, the Commission's recommendation was approved by the Governors and is in place. The question we now face is what to propose in the next case. Since we are not very far along in that process, it is difficult to say where our proposal will fall. As usual, we will look at costs, revenue needs, effects on mailers, and other factors. It is too early to speculate on the outcome of that process.

QUESTION: The Postal Rate Commissioners and intervenors in postal rate cases have had a constant problem in receiving correct data in usable form from the USPS in rate cases. The Commission has now suggested a rulemaking proceeding to correct some of this problem. Do you believe that it is possible for the USPS to be more forthcoming with ratemaking data in a more timely manner?

ANSWER: As you know, rate proceedings are exceedingly complex and the need for data is extensive. The Postal Service bears a heavy burden in providing the data needed, in the detail required. Of course, intervenors also bear a heavy burden in trying to understand these data and in trying to use them effectively.

The Postal Service is aware that there have been certain misunderstandings in the past and that certain persons have been frustrated over difficulties associated with performing and verifying various analyses. Part of this has been due to errors that were slow to be found and part to a failure of various parties to describe adequately their needs.

Another part, however has been due to shortcomings in what was provided. The Postal Service agrees that improvement is needed.

At the present time the Postal Service is cooperating with the Commission in the rulemaking notice and are looking into concerns that various groups have. The Postal Service has a strong interest in providing all data that is needed, in providing it accurately, and in providing it in a form that is understandable and easy to use. This is one way in which the Postal Service can reduce the cost to intervenors of rate proceedings and can make the proceedings go more smoothly.

QUESTION: Approximately how much money is spent annually on fighting grievances filed by workers?

ANSWER: Presently, a very extensive survey and information gathering is taking place throughout the Postal Service in an attempt to determine the costs associated with the grievance and arbitration procedures. This survey identifies all individuals who have a part in the grievance/arbitration process--from a secretary in a field installation to the Assistant Postmaster General for Labor Relations.

While the Postal Service is unable to give a reasonable estimate for dollar costs at this time, it is anticipated that the results of this survey will be available by July 1989.

In addition to determining the processing costs for grievances, numerous joint management and union initiatives have been instituted to combat the problems associated with grievances. As a result of these programs, the Postal Service is experiencing a substantial reduction of grievance appeals. Through the close of accounting period 6, the Postal Service had 17,582 grievance appeals to step 3 of the grievance procedure. This figure compares favorably to same period last year when the Postal Service realized 35,549 appeals, and this represents a 50.54 percent reduction.

It should be noted that these joint efforts with the unions are targeted not only to reduce grievances, but also to cause a permanent and positive change in the workplace climate.

QUESTIONS FOR THE RECORD SUBMITTED BY JOHN MYERS

QUESTION: The Postal Service contracted with Evergreen International in June 1987 to process overnight express mail. Can you update the Subcommittees on the status of the current contract negotiations?

ANSWER: The Postal Service competitively procures its transportation services wherever possible. It has decided that it is in the best interest of the Postal Service to seek offers for the transportation of Express Mail and Priority Mail within major markets.

The Postal Service has been completely satisfied with the service performance of Evergreen International Aviation, Inc., and has strongly encouraged Evergreen to participate in the reprocurement. Key requirements of the future contract call for the contractor to:

- Operate a closed-loop, "hub and spoke" network.
- Preferably utilize dedicated aircraft.
- Select the site for the hub.
- Hold an operator's certificate from the Federal Aviation Administration.

QUESTION: What share of the market of the overnight express services does the Postal Service command? I like the current ad campaign entitled "We Deliver," but can we compete against Federal Express and what do you see as the future of the overnight express business?

ANSWER: In calendar year 1988, the overnight express service market generated a volume of 400 million pieces and revenue of $6 billion. The Postal Service commanded 12 percent of the volume that year. Federal Express held 50 percent of the market, UPS 19 percent, Airborne 11 percent, and all the other carriers 8 percent.

The Postal Service believes it can compete with Federal Express for the small and medium size users of overnight express services. Federal Express does not generally offer deep discounts of those users so that Express Mail is price competitive. In addition, the service features are competitive with Federal Express for these customers. For example, the Postal Service offers reliable service, morning delivery and very convenient methods of acceptance at over 30,000 post offices, over 16,000 collection boxes and with our over 265,000 delivery employees picking up shipments.

The Postal Service believes that the overnight express services market will continue to grow at a rate of about 20 percent for the next five years. The Postal Service projects that Express Mail will approximately match the total market growth.

QUESTION: I understand that Evergreen has maintained a 98 percent-plus delivery record. Is this the standard for the overnight express business or has the contractor performed outstandingly?

ANSWER: With the exception of the first week of operations in June 1987, Evergreen has maintained in excess of a 98 percent on-time operation for its air transportation of Express and Priority Mails. The Postal Service is not specifically aware of the on-time transportation performance of our competitors, such as UPS and Federal Express, in the next-day expedited delivery market, as this information is not publicly disclosed. Since most companies engaged in this business strive for a delivery standard of over 95 percent, the Postal Service can only assume the transportation element of that service must be one or two percent higher than 95 percent. Evergreen, as compared to commercial airlines and other air carriers currently or previously under contract with the Postal Service, has indeed performed in an outstanding manner.

STATUS OF THE U.S. POSTAL SERVICE

WEDNESDAY, MARCH 15, 1989

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON POSTAL OPERATIONS AND SERVICES, SUBCOMMITTEE ON POSTAL PERSONNEL AND MODERNIZATION, COMMITTEE ON POST OFFICE AND CIVIL SERVICE,

Washington, DC.

The subcommittees met, pursuant to notice, at 10:05 a.m., in room 311, Cannon House Office Building, Hon. Mickey Leland (chairman of the subcommittee on Postal Operations and Services) presiding.

Mr. LELAND. Good morning. Welcome to this joint hearing of the Subcommittees on Postal Operations and Services and Postal Personnel and Modernization. This is the second and final session of our annual oversight hearings to assess the status of the Nation's postal system.

Today we will hear from the Chair of the Postal Rate Commission and the Director of Government Business Operations Issues for the General Accounting Office. Both of these agencies play a vital and necessary role in overseeing our postal system.

The Postal Rate Commission has consistently done an excellent job of analyzing the Postal Service's revenue needs. They have produced sound, realistic rate recommendations which have allowed rate increases to be spaced out over stable, three-year intervals for well over a decade now. They have done a fine job of evaluating the need or lack of need for new services. They regularly hear and restore complaints and requests and inquires from large mail users, postal competitors and others with a great interest in postal matters.

The General Accounting Office has provided many fine reports and reviews to this committee which have enabled us to more effectively carry out our oversight responsibilities.

The GAO has reviewed, studied, researched and reported on a wide range of diverse subjects. They have looked into possible conflicts of interest involving members of the Postal Service Board of Governors. They have analyzed the proper course for postal automation programs and they have made recommendations for prevention of the problems that arose in caring for the needs of the relatives and coworkers of those who were killed or injured in Edmond, Oklahoma. They have studied health and safety issues and have been of particular assistance to the Subcommittee on Postal Operations and Services in our review of use of the preferred mailer permit and the mailing practices of television evangelists.

I personally appreciate the assistance these agencies have provided to this committee, and I know the members of the committee share my appreciation.

Now I would like to introduce our first panel. The first panel will include the Honorable Janet Steiger, Chairman of the Commission; the Honorable Patti Birge Tyson, Vice Chair; the Honorable John Crutcher; the Honorable Henry Folsom; the Honorable W.H. Trey LeBlanc.

Madam Chairman, you may proceed.

STATEMENT OF HON. JANET D. STEIGER, CHAIRMAN, POSTAL RATE COMMISSION, ACCOMPANIED BY HON. PATTI BIRGE TYSON, VICE CHAIRMAN, HON. JOHN W. CRUTCHER, HON. HENRY FOLSOM, AND HON. W.H. "TREY" LE BLANC III

Ms. STEIGER. Good morning, and thank you, Mr. Chairman. We are happy as always to appear before the committee to offer any assistance that we can in your oversight responsibilities.

Mr. Chairman, our testimony is lengthy. With your permission I will read an excerpted version and submit the full text for the record.

Mr. LELAND. Without objection, the full text of your testimony will be included in the record, and we appreciate the brevity of your statement. Thank you.

Ms. STEIGER. I am afraid you will find it not brief enough, but better than it would have been.

Your subcommittee, Mr. Chairman, is appropriately holding hearings at a time of rather widespread uneasiness about the postal system. Both the budget and the performance of the service are troubling the postal community. In fact, the more one studies these two areas, the more they seem to merge into what I would like to call the money problem.

From reports of testimony by the Postmaster General and his board last week, they share our concerns about this problem. And for this reason, I would like to focus on some general postal issues before turning to a discussion of what the Postal Rate Commission is specifically involved in.

The money problem can be put rather starkly in three sentences. In the last rate case we provided a surplus of revenues over accrued costs in fiscal year 1989 of more than $1.5 billion. To date, revenues are running almost exactly as predicted, within one-half of one percent. But at its most optimistic, the Service is predicting a surplus of $600 million, not $1.5 billion.

If revenues are as predicted and the expected surplus over accrued costs has dwindled, the main concern must be the level and the control of postal costs. We share the common concern for the Service's ability to provide the service people need at a price that they can pay, and so we have set about analyzing the problem, and we have drawn some tentative conclusions. Let us start with the disappointing fiscal year 1988 deficit.

The Service's explanation, as recently as the December 1988 Governors' meeting and the accompanying Postal Service press release, was that a list of unanticipated and presumably uncontrollable cost increases during fiscal year 1988 had driven it into a deficit posi-

tion. That list included a 32 percent increase in health care costs, costs imposed by the Budget Reconciliation Act and conversion of employees to FERS.

It is true that had these costs not been incurred, the Service would have run a surplus in fiscal year 1988. However, Mr. Chairman, these costs were anticipated. They were reflected in the Postal Service's evidence in the last general rate case, and the Commission provided for all of them in its recommended revenue requirement and the rates to recover it, which the Governors adopted.

Consider first the budget legislation which the Service cites in its recent fiscal year 1988 annual report. It required two large payments: $350 million to the Civil Service Retirement Fund, and $160 million for postal retirees' health benefits. It is true that Congress required that the $350 million be balanced by a reduction in cash outlays for capital investments, but an offset of that kind does not cancel out an increase in operating expenses, and we therefore included it in our cost estimates for fiscal year 1988. The resulting rates thus reflect its impact.

Congress did require funding of the health benefits payments from additional operational savings. Thus, the Service could not ask for nor could we recommend extra revenue to cover that $160 million. But the Service planned to and did close windows, limit weekend processing and take other steps to cut operating costs. GAO finds that it complied with this savings requirement. Presumably, therefore, the retiree health care payment did not cause any addition to the 1988 deficit we had anticipated.

Health care premiums did go up sharply in 1988, as we are all too well aware. However, in the latter part of the rate case, R87-1, the Service told us of the 31 percent increase in fiscal year 1988. We accepted that fact and our financial analysis of fiscal year 1988 and the rates both reflect it.

FERS conversions were also exhaustively investigated in the rate proceedings. The Commission's Recommended Decision takes account of the conversions that had occurred by December 31, 1987, the deadline. And of course, the rates recommended also include the increased retirement costs due to FERS for post-1983 hires.

During all of these proceedings, we assumed, as the Service had suggested, implementation of the new rates on June 4, 1988. In fact, they were made effective on April 3, nine weeks earlier. Nine extra weeks of new rates would have implied a large amount of extra revenue. The Commission had predicted a $487 million loss in fiscal year 1988. Given that all of the supposedly new cost items had been allowed for in the recommended rates, the extra revenue from earlier implementation should have produced instead a $413 million surplus.

As you know, the actual result was $800 million more in revenue than we had predicted due to the early implementation of new rates, but the Service incurred a $597 million loss nonetheless.

The table at page 5 of my testimony runs through that rather dense set of numbers for us.

The cause of this loss, inescapably, is the costs went up $900 million more than anticipated. We think we have identified the source of that cost increase. We relied on Postal Service predictions in the

rate case that work-years would rise about one-tenth of one percent in fiscal year 1988, a very small increase, because the Service anticipated its fiscal year 1988 cost reduction programs would save about 2 percent of total work-years.

As it turned out, fiscal year 1988 work-years increased 3.1 percent despite the savings that were achieved in order to offset the $160 million Reconciliation Act payment. That increase in work-years cost about $800 million, $800 million not projected in the rate case, and constituted almost all of the total disparity between what should have happened and what the books now actually show.

We testified, as you know, Mr. Chairman, last year about our concerns regarding work-year growth. In our view, there is every reason to think that excessive work hours are the real culprit.

Now, what is the impact on 1989? In the most recent rate case, we provided a contingency of $1.3 billion and a prior year loss recovery amount of $265 million. If all of the estimates of revenues and expenses turned out precisely correct, this should leave fiscal year 1989 test year surplus above accrued costs of just over $1.5 billion.

As we have seen, things don't always turn out as planned. Although we provided for the higher than originally estimated 1988 health benefit costs, we did not predict the entire 26 percent further increase in fiscal year 1989 now reported.

The Service had also expected to achieve almost $280 million in additional cost reduction programs savings during 1989. These savings were to be in addition to the $570 million savings it had planned for 1988, and these things do accumulate. Fiscal year 1988 actual work-year figures in the Service's submission for the President's 1990 budget leads us to conclude that the fiscal year 1988 savings were not achieved, and the combined fiscal year 1988 and 1989 cost reduction program savings might not be achieved in 1989.

These factors alone could easily consume most of the $1.5 billion surplus provided for through the contingency and the prior year loss recovery allowances. Thus most, if not all, of the cushion built into the last rate case may well be gone before the start of fiscal year 1990.

I would add that requirements imposed on the Service for 1989 by the Budget Reconciliation Act should not have adverse effects on net income.

We and the Postal Service are obviously both concerned over figures like this and we are not alone. Mailers are worrying. The wide diffusion of concern over postal costs in the private and the public sectors tells us that we are hearing more than the opinions of disappointed rate case litigants. Mailers are worried. And the more dependent they are on the Postal Service, the more worried they are.

I have said there is a connection between budget and performance issues, and I should clarify that connection. If postal performance issues really revolve, as I suggest, around performance per dollar spent, then a big part of the solution is obviously productivity improvement. I see this issue now receiving something like the attention it deserves both within the Congress and elsewhere, particularly within the Congress.

For instance, Chairman Pryor of the Senate subcommittee has asked us to analyze four major productivity questions related to postal automation. They involve the impact of the OCR bar code system on the most recent rate change, and the impact of that system on the fiscal performance of the service in 1988. We are asked if we can detect any improvement in postal costs since the beginning of the use of that system, and estimate the impact of the system on Postal Service labor productivity. We are working on this analysis. We would be very happy to share it with you when it is completed. I might add we are pleased to say that the Postal Service has kindly offered us assistance with the data that might be needed for this project.

We are naturally pleased to read in the annual report that both automation and work-sharing are being pursued by postal management. It is encouraging that Postmaster General Frank has emphasized both technological improvement within the Service like bar coding, automated parcel sorting, and even more advanced ideas, as well as new work-sharing concepts like those his joint Postal Service-industry task force has suggested.

If no more than new methods were needed, the Service's problems would be a lot simpler than they plainly are. Technology, however, can provide no more than the opportunity for savings. Managers have to make the savings a reality. And here the Service is I think beginning to acknowledge that it is having difficulties.

The question simply put is: where are the savings? In fiscal year 1988, 34 percent of all letter mail was processed on automatic equipment compared with 26 percent the year before. There should be noticeable savings in labor usage.

In fiscal year 1988, total factor productivity improved by one-tenth of one percent, considerably less than the average annual increase since reorganization.

This confirms what we have heard elsewhere, that the Service is not succeeding in reducing work-hours in step with the leveling off in volume growth. At the February governors' meeting, Senior APMG Coppie observed: "The greater use of work hours has resulted in lower productivity than planned. We are experiencing volume growth that is relatively low and managing down is difficult in the short run for a service organization of this size and complexity." That is a direct quotation.

It is, I might add, not easy to follow productivity issues of this kind on a current basis. Final Postal Service cost figures are not available until some months after the period to which they refer. When the actual numbers became available for fiscal year 1987, the small productivity improvement noted was retrospectively revised to a negative figure.

I don't want to leave the impression that volumes are in a nose dive. They are not. In fact, they are healthier than one would have thought from the expert presentation of Postal Service witnesses in docket R87-1. We are not seeing the kind of growth characteristic of a few years ago, but growth is still there.

The Service's volume prediction in the last rate case contemplated some absolute declines in mail volume once the proposed new rates became effective, the first such decline since 1975. We are

not, almost a year later, seeing the kinds of decline that we expected.

Third class, where growth in fiscal year 1988 was noticeably less than it had been in the past, is still doing better than forecast by the rate case model which predicted a major decline, based on that class' estimated sensitivity to a price increase of the magnitude the Service had proposed.

Express Mail volumes are 19 percent more than the model forecast and 21 percent above the previous year. Increases like this offset the overprediction of first class volume, producing an essentially accurate forecast of total revenue.

This brings me to the first item of strictly Postal Rate Commission business I want to discuss. It is clear that making reasonably accurate forecasts of volume class by class is one of the more important challenges in a rate case.

We have just issued a notice of proposed rulemaking aimed at making the litigation and decision process on volume issues more understandable and likelier to produce credible results. Our rulemaking initiative is designed to ease and improve that estimating process, and we look forward to comments of the parties on that notice.

A number of other cases are or recently have been on our agenda. We recommended no change in the current practice of allowing detached address labels. We have just concluded hearings and are in the briefing stage in the second class "Plus Issues" case. And one of the most interesting cases filed before us in many years, the complaint filed by the Third Class Mail Association, asks us in effect for a critique of the Service's decision not to consider suspending the letter monopoly as applied to third class addressed advertisements. We cannot discuss the merits of this complaint since a Postal Service motion to dismiss is still pending, but I can assure the committee that all issues have been thoroughly argued.

Let me turn now to the supplemental statement we submitted late yesterday which explains a significant Commission action that we have just taken.

Yesterday, March 14, the Commission held an open meeting at which it voted to issue a notice of proposed rulemaking in Docket RM88–2, a proceeding initiated in response to the Postal Service's request for expedited procedures for use with Express Mail rate changes.

The Commission decided to publish for comment a set of procedural rules designed to allow decisions on what we term market response rate cases for Express Mail in approximately 90 days. That was the time advocated by the Service in its petition, and a number of the features of the proposed rules are adapted from the suggested rules that the Service filed. As the committee can infer from the length of the notice, the petition was highly controversial and attracted useful and interesting comments from many quarters.

We concluded that there is enough indication of price competition in the expedited service market to make a new set of rules worthwhile. I should stress that these rules govern procedures and are not the substantive principles of ratemaking. They are in the statute and remain applicable just as they would in a 10-month om-

nibus rate case. Our task was not to assess the precise degree to which Express Mail and its rivals compete on the basis of price, but rather to evaluate the relative risk of failing to provide for expeditious treatment of Express Mail rate reductions in response to market changes compared to that of establishing new, untried and highly compressed procedures. We judged that the former posed enough risk of injury to the postal system to justify the latter.

For the same reasons, we propose these rules have an experimental quality, that they are to sunset within a five-year range. That provision should help insure that they are evaluated timely and any needed improvements proposed before they expire by their terms or are renewed by Commission order.

A good deal of the criticism of the Postal Service's proposal concerned what commenters saw as an effort to foreclose consideration of some statutorily required issues. We think the proposed rules insure that all legitimate, relevant issues may be raised, albeit the pace of the proceeding will be demandingly rapid.

We have tried to speed matters by assembling more relevant information before the case begins. Thus, we would amend our periodic reporting rules to collect certain data that is basic to Express Mail. Anyone likely to be interested in market response cases as they occur could become familiar with these data ahead of time. Although the Service had suggested that market response cases could use historical costs, unlike other rate proceedings, we would require the Service to produce future test year costs in a market response case, which we think a fairer and more rational procedure.

I have furnished some copies of the notice of proposed rulemaking. Comment will be allowed on it for 40 days, and as with our other pending rulemaking, we look forward to the input of the parties.

Mr. Chairman, that concludes our statement.

[The prepared statement of Ms. Steiger follows:]

**STATEMENT OF JANET D. STEIGER, CHAIRMAN,
POSTAL RATE COMMISSION
BEFORE THE SUBCOMMITTEES ON POSTAL OPERATIONS AND SERVICES
AND POSTAL PERSONNEL AND MODERNIZATION,
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
UNITED STATES HOUSE OF REPRESENTATIVES**

March 15, 1989

Chairman Leland, Chairman McCloskey, and Members of the Subcommittees:

Once again, we welcome the opportunity for a discussion of current postal issues as they appear from the perspective of the Postal Rate Commission. Your Subcommittees are, appropriately, holding these hearings at a time of rather widespread uneasiness about the postal system. Both the budget and performance of the Service are troubling the postal community. In fact, the more one studies these two areas, the more they seem to merge into what I might simply call the Money Problem. From reports of testimony by the Postmaster General and his Board last week, they too share concerns about this problem. For that reason, I would like to focus first on some general Postal Service issues, reserving for later a discussion of what the Rate Commission in particular is doing.

The Money Problem might be put starkly in three sentences:

1. In the last rate case, we provided a surplus of revenues over accrued costs, in FY 1989, of more than $1.5 billion.

2. To date, revenues are running almost exactly as predicted -- within one-half of one percent.

3. At its most optimistic, the Service is predicting a surplus of $600 million -- not $1.5 billion.

Postal Service costs. If revenues are as predicted, and the expected surplus over accrued costs has dwindled, the main concern must be the level -- and the control -- of Postal Service costs. We share the common concern for the Service's ability to provide the service people need at prices they can pay, and so we have set about analyzing the problem -- and we have drawn some tentative conclusions. Let's start with the disappointing FY 1988 deficit and then turn to analyzing FY 1989.

The Service's explanation, as recently as the December 1988 Governors' meeting and the accompanying Postal Service press release, was that a list of unanticipated and presumably uncontrollable cost increases during FY 1988 had driven it into a deficit position. The list included:

- A 32% increase in health care costs;
- Costs imposed by the Budget Reconciliation Act; and
- Conversion of employees to FERS.

It is true that had these costs not been incurred, the Service would have run a surplus in FY 1988. However, these costs <u>were</u> anticipated; they were reflected in the Postal Service's evidence in the last general rate case; and the Commission provided for all of them in its recommended revenue requirement and the rates to recover it -- which the Governors adopted.

Consider first the budget legislation, which the Service cites in its recent FY 88 *Annual Report*.[1] It required two large payments: $350 million to the Civil Service Retirement Fund, and $160 million for postal retiree health benefits. It is true that Congress required that the $350 million be balanced by a reduction in cash outlays for capital investments. But an offset of that kind does not cancel out an increase in operating expenses; we therefore included it in our cost estimates for FY 1988. The resulting rates reflect its impact. Congress did require funding of the health-benefits payment from additional operational savings. The Service thus could not ask for, nor could we recommend, extra revenue to cover this $160 million. But the Service planned to, and did, close windows, limit weekend processing, and take other steps to cut operating costs. GAO finds that it complied with this savings requirement.[2] Presumably, therefore, the retiree health-care payment did not cause any addition to the 1988 deficit we anticipated.

Health care premiums did go up sharply in 1988, as we are all too well aware. However, in the latter part of the R87-1 rate proceedings, the Service told us of a 31% increase

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[1] *Annual Report of the United States Postal Service, Fiscal Year 1988*, at 15:

> The result would have been significantly closer to break-even had the Omnibus Budget Reconciliation Act of 1987 not required $510 million in payments for retirees' cost-of-living allowances and health benefits.

[2] General Accounting Office, *Postal Service: Final Report on Compliance with the 1988 Budget Reduction Mandate* (GAO/GGD-89-25), October 1988. In fact, GAO found that the Service had, overall, achieved more than the required $160 million in savings.

in FY 1988. We accepted that fact, and our financial analysis of FY 1988 and the rates both reflect it.

FERS conversions were also exhaustively investigated in the rate proceedings. The Commission's recommended decision takes account of the conversions (far fewer, by the way, than the Service's initial estimate: 1.8% versus 40%) that had occurred by the December 31, 1987, deadline. Of course, the rates recommended also include the increased retirement costs, due to FERS, for post-1983 hires.

During all of the proceedings, we assumed -- as the Service had suggested -- implementation of the new rates on June 4, 1988. In fact, they were made effective on April 3, 1988, nine weeks earlier. Nine extra weeks of new rates would have implied a large amount of extra revenue. The Commission had predicted a $487 million loss in FY 1988.[3] Given that all the supposedly new cost items had been allowed for in the recommended rates, the extra revenue from early implementation should have produced, instead, a $413 million surplus.

As you know, the actual result was $800 million more in revenue than we had predicted -- due to the early implementation of new rates -- but the Service incurred a $597 million loss nonetheless.

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[3] The R87-1 test year, in which the statutory breakeven is aimed for, was FY 1989.

FY 1988 RESULTS AS AFFECTED BY EARLY IMPLEMENTATION

($ millions)

	PRC DECISION	USPS ACTUAL	DIFFERENCE
Total revenues	35,124.9		
Early rate implementation (adjustmt.)	900.0		
Adj. revenue	36,025.9	35,938.8	-86.1
Total accrued costs	35,611.5	36,535.7	924.2
Net income	413.4	-596.9	1,010.3

The cause of this loss, inescapably, is that costs went up $900 million more than anticipated. We think we have identified the source of the cost increase. We relied on Postal Service predictions in the rate case, which were that workyears would rise about 0.1% in FY 1988: a very small increase, because the Service anticipated its FY 1988 cost reduction programs would save about 2% of total workyears.

As it turned out, FY 1988 workyears increased 3.1% despite the savings that were achieved in order to offset the $160 million Reconciliation Act payment for retiree health benefits. That increase in workyears cost about $800 million -- dollars not projected in the rate case -- and constituted almost all of the total disparity between "what should have happened" and what the books actually show. We testified, as you know, Mr. Chairman, last year about our concerns regarding work hour growth. In our view, there is every reason to think that excessive work hours are the real culprit.

You might ask: what impact might the FY 1988 experience have on FY 1989?

In the most recent rate case we provided a contingency of $1.3 billion and a prior year loss recovery amount of $265 million. If all the estimates of revenues and expenses turned out precisely correct, this would leave an FY 1989 (test year) surplus above accrued costs of just over $1.5 billion. As we have already seen, estimated revenue and expense do not always turn out as planned. Although we provided for the higher than originally estimated FY 1988 health benefit costs, we did not predict the entire 26% further increase in FY 1989 now reported.[4] The Service had also expected to achieve almost $280 million in additional cost reduction program savings during FY 1989. These savings were to be in addition to the $570 million savings it had planned for FY 1988. The FY 1988 actual workyear figures in the Service's submission for the President's FY 1990 budget lead us to conclude that the FY 1988 savings were not achieved, and the combined FY 1988 and FY 1989 cost reduction program savings might not be achieved in FY 1989. These factors alone could easily consume most of the $1.5 billion surplus provided for through the contingency and the prior years' loss recovery allowance. Thus most, if not all, of the cushion built into the last rate case may well be gone before the start of FY 1990. The requirements imposed on the Service for FY 1989 by the Budget Reconciliation Act should not have adverse effects on its net income for this year.[5]

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[4] We provided for the 11% increase suggested by the Service; however, we used the higher FY 1988 base. Nonetheless, the actual FY 1989 increase of 26% will cost the Service approximately $200 million more than we anticipated.

[5] The $270 million payment for retiree health benefits will increase operating expenses but the law requires the Service to implement offsetting cost reductions, which should produce no net change when the two actions are combined. Further, unlike the $350 million payment to the retirement fund required in FY 1988, the Act requires only that the

What the mailing public thinks. We and the Postal Service, obviously, are both concerned over figures like this. And we are not alone. Mailers are worrying too, and some are doing more than worrying. From the magazine industry:

> I don't have to tell you that the fear of being eaten alive by escalating postal costs is something we all live with everyday. It's a simple fact that postal costs are out of control. . . .

That is Reginald Brack of Time, Inc., in a magazine article of last fall. Third-class mailers: advocating an end to the Private Express Statutes monopoly over third-class addressed letters, the Third Class Mail Association has cited escalating costs.[6] From federal agencies: there is more interest than ever before in trimming postal bills: individual agencies are looking for ways to workshare, GSA is spreading the word in a recent report on how agencies have cut back their postage bills[7], and OMB has considered legislation to mandate a special subclass for government mail with a statutorily-limited institutional cost contribution. The wide diffusion of concern over postal costs -- in both the private and public sectors -- tells me that we are hearing more than the opinions of disappointed rate-case

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Service place $465 million into an escrow fund to offset a comparable reduction in capital investment expenditures. This escrow payment and the increase in the payment for retiree health benefits, when offset by the mandated cost savings, should not affect operating expenses in FY 1989.

[6] Letter of Herb Gertz to Postmaster General Frank, March 14, 1988, at 2.

[7] General Services Administration, *Governmentwide Mail Management Initiative: How 16 Federal Agencies Saved Over $76 Million in Mailing Costs*, September 1988.

litigants. Mailers are worried, and the more dependent they are on the Postal Service the more worried they are.

Productivity. I have said there is a connection between budget and performance issues and now I should clarify that connection. If postal performance issues really revolve, as I suggested, around performance per dollar spent, then a big part of the solution is productivity improvement. I see this issue receiving something like the attention it deserves (it's hard to see how it could receive too much), both within the Service and elsewhere -- including, particularly, Congress.

For instance, Chairman Pryor of the Senate subcommittee has asked us to analyze four major productivity questions related to postal automation. His letter asks:

> (1) What was the impact of the OCR/barcode system on the most recent rate change?
>
> (2) What was the impact of the OCR/barcode system on the fiscal performance of the Postal Service during fiscal year 1988?
>
> (3) Can you detect any improvements in postal costs since the inception of the OCR/barcode system in 1983?
>
> (4) Can you estimate the impact of the OCR/barcode system on Postal Service labor productivity and total factor productivity since 1983?

We are working on this analysis and will be happy to share our findings with you when we have completed it. And I am very pleased to say that the Postal Service kindly offered us assistance with data provision that might be needed for the project.

We are naturally pleased to read in the *Annual Report* that both automation and worksharing are being pursued by postal management. In the past, the Service's management has been criticized for treating its chosen programs as though they were the only admissible answer to the productivity problem. From the strictly quantitative point of view -- and productivity is largely, though not entirely, a quantitative problem -- these criticisms may have been fair. Analysis of whether resources are being efficiently used should not start with a presumption that one type of improvement will be made regardless of how other approaches might compare with it. It is not even always true that worksharing is the "low-tech" option: with the diffusion of the technology, for example, barcodes can be applied at a number of different stages, including the preparation of mail before it reaches the Postal Service.

It is encouraging, therefore, that PMG Frank has emphasized both technological improvements within the Service, like barcoding, automated parcel sorting, and even more advanced ideas, and new worksharing concepts like those the joint Postal Service/industry task force suggested.

Are new methods the whole answer? If no more were needed than the introduction of new methods, the Service's problems would be a lot simpler than they plainly are. Technology, however advanced, can provide no more than the opportunity for savings. Managers have to make the savings a reality. And here the Service is, I think, beginning to acknowledge that it is having difficulties.

The question, simply put, is: Where are the savings? In FY 1988, 34% of all letter mail was processed on automated

equipment, compared with 26% the year before.[8] Based on throughput rates for automated, as against manual or mechanized, operations, there should be noticeable savings in labor usage. In FY 1988, total factor productivity improved by 0.1%, considerably less than the average annual increase since Reorganization.[9] More specifically, the Service reports that this change

> . . . was the net result of substantial increases in the first three quarters followed by a decline of 1.5 percent in the fourth quarter. Workload in the fourth quarter was well below plan, while labor usage exceeded plan. . . .[10]

This confirms what we have heard elsewhere: that the Service is not succeeding in reducing workhours in step with the leveling-off in volume growth. At the February Governors' meeting, Senior APMG Coppie observed that

> . . . The greater use of work hours has resulted in lower productivity than planned. . . . We are experiencing volume growth that is relatively low and managing down is difficult in the short run for a service organization of this size and complexity.[11]

That kind of problem, if it should also turn out to be a long-term phenomenon, makes mailers very nervous. It is, I might add, not easy to follow productivity issues of this kind on a current basis. Final Postal Service cost figures are not available until some months after the period to which they refer. Thus, for example, the productivity improvement

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[8] *Annual Report* at 5.

[9] *Annual Report* at 16.

[10] *Ibid.*

[11] Board of Governors Monthly Meeting, Miami, Florida (February 7, 1989), Tr. 50.

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for FY 1987 was first estimated to be 0.1%.[12] When the actual numbers became available, it was retrospectively revised to a negative figure.[13]

Where are volumes heading? I do not want to leave the impression that volumes are in a nosedive. They are not; in fact they are healthier than one would have thought from the presentation in Docket R87-1. We are not seeing the kind of growth characteristic of a few years ago, but growth is still there.

The Service's volume predictions in the last rate case contemplated some important absolute declines in mail volume once the proposed new rates became effective -- the first such declines since 1975. We are not, almost a year later, seeing the kind of declines we expected. I had our staff make a comparative table, Attachment A to my prepared statement, showing actual volumes in major classes as compared with a quarterly breakdown of the volumes forecast in Docket R87-1, as well as with actual volumes for the previous year. Third class, where growth in FY 1988 was noticeably less than it has been in the past, is still doing better than forecast by the model -- which predicted a major decline, based on the class's estimated sensitivity to a price increase of the magnitude the Service had proposed. Express Mail volumes are 19% more than the model forecast and 21% above the previous year. Increases like this offset the overprediction of First Class volume, producing an essentially accurate forecast of total revenue.

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[12] *Annual Report of the Postmaster General, Fiscal Year 1987*, at 12.

[13] *Annual Report* (FY 1988), at 16 (figure).

Volume forecasting in transition. This brings me to the first item of strictly PRC business I want to discuss. It is clear that making reasonably accurate forecasts of volume, class by class, is one of the more important challenges in a rate case. The wide availability of computers and the development of sophisticated techniques of econometrics make it just about mandatory to approach volume estimation in a quantitatively sophisticated way. Most parties, including the Service, that have made volume presentations in our rate cases have recognized this fact. Unfortunately, as the elaborateness of the technique increases, so does the difficulty of explaining it or -- if you're on the other side of the table -- challenging and perhaps rebutting it.

We have just issued a notice of proposed rulemaking aimed at making the litigation and decision process on volume issues more understandable, and likelier to produce credible results. It would require any party filing volume estimation testimony -- not just the Service -- to provide improved documentation of econometric or other statistical studies offered in support. Under certain circumstances, the sponsoring party would be called upon to perform reasonable variations on its model, to aid in the validation process. The Postal Service's initial filing in a rate case would also have to provide some additional data peculiarly within its knowledge.

Any reader of our last two or three rate decisions will recognize the importance of correct volume estimations, and the frustrations sometimes experienced in making sense -- within a 10-month deadline -- of the evidence offered on this subject. The volume-estimation corrections we had to make in Docket R84-1, which led to the Service's recovering adequate revenues on a substantially smaller rate increase than it had

proposed, may come to mind as an example. Our rulemaking initiative is designed to ease and improve that estimating process; we hope for methods that are both intrinsically better and more easily intelligible.

Other cases at the Commission. A number of other cases are or recently have been on our agenda. Another chapter in the competitive struggle between advertising media closed when we decided the "detached label complaint" -- a case interrupted by the omnibus rate proceeding, resumed thereafter, and decided just before Christmas and adopted by the Governors in February. We recommended no change in the current practice of allowing detached address labels, which evidently produce some cost savings, to be treated for rate purposes as part of the parent mailpiece.

Another aspect of this problem is currently before us in connection with "Plus Issues." After a U.S. District Court told the Service its regulation, closing second class to certain types of newspaper issues largely directed to nonsubscribers, was really mail classification, it filed the necessary classification proposal with us. We have just concluded hearings and are in the briefing stage.

Certainly one of the most interesting cases before us in many years is the complaint filed by Third Class Mail Association, asking us, in effect, for a critique of the Service's decision not to consider suspending the letter monopoly as applied to third-class addressed advertisements. The Service has moved to dismiss it as beyond our jurisdiction. In mid-February, the complainant proposed that we divide it into a notice-and-comment phase directed toward identifying the correct economic theory under which to evaluate the monopoly, and a potential hearing phase devoted

to finding whether the theory, as applied to the facts shown, justifies its continuance. I cannot discuss the merits of the complaint, since the motion to dismiss is still pending, but I can assure the committee that all the issues -- including the question of the PRC's proper role -- have been thoroughly argued and are being carefully thought through.

We also have before us a petition from a major user that we revise our rules to require the Service to provide weight and shape data for third-class mail.

PRC operations. Let me wind up with a few words about how we are managing with our own workload.

There is no question in my mind that computerization has been, and will continue to be, of enormous help to us. Currently we are experimenting with ways of reducing our case records to an electronic medium which can be researched by computer. We have already amended our court-reporting contract to call for preparation of transcripts on diskette as well as in book form; this will allow us quicker access to the hearing record while the case is going on, and while we are working on our decision. Of course any party that wants to take advantage of this system can order copies of the diskette from the reporting company, just as it would order paper copies of the transcript.

Some of the benefits of computerization show up in our annual budget. Last fall we sent the Governors a budget of $5.2 million; this was only 3.3% over the year before and included a rent increase as well as governmentwide pay and health-benefit contribution obligations. Our staffing did not increase. We are finding ways to let the same number of people do more things, and do them faster.

Our increased analytical capabilities might be of use to the Congress too, on occasion. I am always pleased to think that we are considered a helpful and objective source on technical questions. I hope you will let us know how we can assist you, as we all tackle the problems that lie before our postal system.

Attachment A
Page 1

Comparison of PRC Estimated Volumes and
Actual Volumes
Postal Quarter 1, FY 1989 and 1988
(Numbers in Thousands)

	Est. PRC Qtr.I FY 89 Volumes	Actual Qtr.I FY 89 Volumes	Actual Qtr.I FY 88 Volumes	Est. PRC % Differ. Over Actual	Act. Qtr.I % Differ. Over 1988
First Class Mail:					
Letters and Parcels	14,133,363	13,371,006	13,760,186	5.702%	-2.828%
Presort Letters & Pcls.	5,440,390	5,695,755	5,100,951	-4.483%	11.661%
Carrier Presort Letters	339,974	356,152	280,930	-4.542%	26.776%
Postal Cards	88,176	166,396	91,820	-47.008%	81.220%
Private Mailing Cards	552,877	542,172	553,591	1.974%	-2.063%
Presort Private Cards	176,520	248,272	217,577	-28.901%	14.108%
Carrier Presort Cards	32,243	9,327	8,543	245.695%	9.177%
Total First-Class	20,763,543	20,389,080	20,013,598	1.837%	1.876%
Priority Mail	93,268	99,701	96,384	-6.452%	3.441%
Express Mail	9,374	11,211	9,238	-16.386%	21.357%
Mailgrams	4,732	3,861	5,465	22.559%	-29.350%
Second Class:					
Within County	383,948	366,418	336,269	4.784%	8.966%
Regular Rate	1,574,402	1,559,532	1,515,192	0.953%	2.926%
Nonprofit	598,371	579,292	572,637	3.294%	1.162%
Classroom	7,812	12,347	11,736	-36.730%	5.206%
Total Second-Class	2,564,533	2,517,589	2,435,834	1.865%	3.356%
Third Class:					
Single Piece	35,126	44,550	42,299	-21.154%	5.322%
Bulk Rate-Regular	1,909,479	2,309,456	3,076,546	-17.319%	-24.933%
-5 dig.Prst.	3,088,421	2,907,496	2,375,442	6.223%	22.398%
-Carr.Prst.	6,458,972	7,011,837	6,669,172	-7.885%	5.138%
Total Bulk Rate Regular	11,456,872	12,228,789	12,121,160	-6.312%	0.888%
Bulk Rate-Nonprofit	1,134,429	1,376,996	1,502,962	-17.616%	-8.381%
-5 dig.Prst.	1,287,371	990,052	758,828	30.031%	30.471%
-Carr.Prst.	711,272	862,334	611,558	-17.518%	41.006%
Total Bulk Rate Nonprof	3,133,072	3,229,382	2,873,348	-2.982%	12.391%
Total Third Class	14,625,070	15,502,721	15,036,807	-5.661%	3.098%
Fourth Class:					
Parcel Post	40,693	31,101	42,522	30.841%	-26.859%
Bound Printed Matter	46,574	59,788	57,130	-22.101%	4.653%
Special Rate	31,429	35,404	45,107	-11.228%	-21.511%
Library Rate	10,548	9,793	9,871	7.710%	-0.790%
Total Fourth Class	129,244	136,086	154,630	-5.028%	-11.992%
Penalty Mail	633,482	829,516	744,456	-23.632%	11.426%
Franked Mail	48,409	71,490	137,365	-32.286%	-47.956%
Free for the Blind	7,441	7,547	11,278	-1.405%	-33.082%
Total Domestic Mail	38,879,096	39,568,802	38,645,055	0.606%	2.390%

Comparison of PRC Estimated Revenues and
Actual Revenues
Postal Quarter I, FY 1989 and 1988
(Numbers in Thousands)

	Est. Qtr.I FY 89 Revenues	Actual Qtr.I FY 89 Revenues	Actual Qtr.I FY 88 Revenues	Est. PRC % Differ. Over Actual	Act. Qtr.I % Differ. Over 1988
First Class Mail:					
Letters and Parcels	4,159,887	3,939,966	3,542,022	5.582%	11.235%
Presort Letters & Pcls.	1,211,695	1,286,118	985,026	-5.787%	30.567%
Carrier Presort Letters	68,665	71,084	48,979	-3.404%	45.132%
Postal Cards	13,226	24,959	12,855	-47.007%	94.158%
Private Mailing Cards	88,280	84,928	81,361	3.947%	4.384%
Presort Private Cards	22,919	32,277	26,104	-28.992%	23.648%
Carrier Presort Cards	3,708	1,079	941	243.649%	14.665%
Total First-Class	5,568,380	5,440,411	4,697,288	2.352%	15.820%
Priority Mail	296,562	302,617	310,892	-2.001%	-2.662%
Express Mail	116,958	121,316	111,573	-3.592%	8.732%
Mailgrams	4,058	2,329	3,292	74.234%	-29.253%
Second Class:					
Within County	28,669	25,420	22,280	12.780%	14.093%
Regular Rate	273,001	280,706	234,778	-2.745%	19.562%
Nonprofit	64,922	56,934	48,923	14.030%	16.375%
Classroom	1,262	1,647	1,495	-23.367%	10.167%
Total Second-Class	367,854	364,707	307,476	0.863%	18.613%
Third Class:					
Single Piece	37,976	47,908	39,761	-20.731%	20.490%
Bulk Rate-Regular	339,689	419,879	413,877	-19.098%	1.450%
-5 dig.Prst.	436,706	414,824	260,634	5.275%	59.160%
-Carr.Prst.	736,316	795,756	636,472	-7.470%	25.026%
Total Bulk Rate Regular	1,512,711	1,630,459	1,310,983	-7.222%	24.369%
Bulk Rate-Nonprofit	103,543	118,616	130,255	-12.708%	-8.936%
-5 dig.Prst.	105,852	75,924	54,196	39.418%	40.092%
-Carr.Prst.	42,240	46,517	34,050	-9.194%	36.614%
Total Bulk Rate Nonprof	251,635	241,057	218,501	4.388%	10.323%
Total Third Class	1,802,321	1,919,424	1,569,245	-6.101%	22.315%
Fourth Class:					
Parcel Post	132,782	98,896	124,062	34.264%	-20.285%
Bound Printed Matter	32,038	46,857	33,858	-31.625%	38.393%
Special Rate	53,954	53,180	55,489	1.455%	-4.161%
Library Rate	15,674	11,533	11,027	35.905%	4.589%
Total Fourth Class	234,448	210,466	224,436	11.395%	-6.224%
Penalty Mail	246,283	228,198	197,970	7.925%	15.269%
Franked Mail	7,101	11,936	18,750	-40.511%	-36.341%
Free for the Blind	0	0	0	-100.000%	-100.000%
Total Domestic Mail	8,643,965	8,601,404	7,440,922	0.495%	15.596%

Mr. LELAND. Thank you very much, Madam Chair.

Let me ask if my colleagues would like to either make or submit opening statements for the record.

Mr. MCCLOSKEY. I would like to submit my opening statement for the record.

Mr. LELAND. Without objection.

[The prepared statement of Mr. McCloskey follows:]

STATEMENT OF CHAIRMAN FRANK MCCLOSKEY

Good morning. Today the Subcommittee on Postal Operations and Services and the Subcommittee on Postal Personnel and Modernization will begin the second half of our annual oversight hearings on the operation of the U.S. Postal Service. I want to welcome our witnesses from the Postal Rate Commission, Chairman Janet Steiger, Vice Chairman Patti Tyson, Commissioner John Crutcher, Commissioner Henry Folsom, and Commissioner Trey Leblanc and from the General Accounting Office, Mr. Nye Stevens.

These two agencies have been closely monitoring the operations of the Postal Service and I want to commend them for their vigilance and for the assistance that they have provided our committee. It appears, after reading Chairman Steiger's statement and Mr. Stevens' statement, that the postal scenario is not as rosy as we were led to believe during last week's hearing.

I am disturbed to learn that the Postal Service is continuing to experience problems in controlling costs. I am particularly distressed to hear that in spite of cutbacks in window hours and weekend mail processing, workyears increased 3.1 percent in fiscal year 1988.

Postmaster General Tony Frank indicated last week that the Postal Service is an efficient and responsive operation. He also stated that one of his goals for the service was to stretch out the time between rate increases. From the testimony we will be hearing today, it is evident that efficiency and productivity can and must be improved in order to maintain an inexpensive, viable Postal Service.

I seriously doubt that major mailers, such as the third class mailers, will continue to utilize the Postal Service as extensively, if they are required to shoulder another dramatic rate increase as they did in the last rate case.

I do not wish for this hearing to turn into a session of micromanagement of the U.S. Postal Service, but I do hope that the constructive criticism provided by the Postal Rate Commission and GAO will be responded to in a positive fashion by the Postal Service.

Let us hope that, with continued assistance from the GAO and the Postal Service Commission, the Postal Service will be able to continue to provide effective and inexpensive mail service to the country.

I want to again thank the GAO for their assistance in the personnel areas that have proved to be contentious for the Postal Service and look forward to hearing from them in May on the use of discipline within the Postal Service.

Mr. HORTON. Mr. Chairman, I would like to submit my opening statement for the record and join with you in welcoming the members of the Postal Rate Commission. They are doing an outstanding job. We appreciate the complexities and the difficulties of the work that you are doing, and I especially want to commend the Chairman on your leadership in this very important role.

[The prepared statement of Mr. Horton follows:]

OPENING STATEMENT OF HON. FRANK HORTON

Thank you, Mr. Chairman. It is a pleasure to join Chairman McCloskey and Chairman Leland, in our third day of the joint oversight hearings on the Postal Service. I want to welcome all of our witnesses today.

I join the Chairman in thanking the independent Postal Rate Commission, and their Chairperson Janet Steiger for their testimony here today. I want to commend Chairperson Steiger and the entire Commission for the outstanding work they consistently produce. I am anxious to hear from all the members of the Commission.

Today, we also have Mr. L. Nye Stevens from the General Accounting Office (GAO) with us to comment on the operation of the Postal Service. Mr. Stevens has

been with us in years past, and I would like to thank him for appearing before the Committee.

I believe I can speak for all the members of the Post Office and Civil Service Committee when I state that the independent postal rate commission has done a much better job with the rate making process than we did in Congress. The complexity of recent rate making cases, and the volume of documents involved, indicate that Congress acted responsibly in removing itself from the rate making process. The responsibility for rate making was shifted from Congress to the newly created Postal Rate Commission by the Postal Reorganization Act of 1970.

Once again, thank you for coming this morning.

Ms. STEIGER. Thank you.

Mr. LELAND. Madam Chair, thank you very much for your statement.

Let me say to you that I have heard in the wind that other things are in store for you in the future. Would you care to comment on that? [Laughter.]

Or is it classified?

Ms. STEIGER. It is rumor which this town lives on, Mr. Chairman.

Mr. LELAND. Well, anyway, we hope that you are with the Postal Rate Commission forever. I think that my colleagues feel the same way. We don't want to lose her.

Mr. HORTON. I hope she stays until they reduce the rate at least one cent. [Laughter.]

Ms. STEIGER. Mr. Chairman, that would, I'm afraid, guarantee a long career by what we are seeing this morning.

Mr. LELAND. Whatever it is that is in store for you, good luck.

Ms. STEIGER. Thank you, Mr. Chairman.

Mr. LELAND. Let me ask you. You recently made a proposal for extending the interval between rate increases to four years with a review every two years. Could you give us the details on your proposal?

Ms. STEIGER. Yes. I would add that, as I did when I presented this in Norfolk last summer, this is a modest proposal. I didn't think it was going to cure the ills of the world.

Its goal was, first of all, to increase accountability for the Postal Service. We could compare actuals to estimates in a much easier fashion. There would be a major rate case every four years with mini-rate cases on a two-year cycle.

The other advantage we thought this provided was that rate increases would tend to be smaller. As you know, as you stretch the interval of rate stability, which is a positive, you also wind up with rather large increases at the end of that rate cycle. We thought this would guarantee smaller, more incremental increases and offer some planning opportunities for Postal Service customers. It would reduce uncertainty.

We thought it might also limit the cost of participation in rate cases. Again, the Postal Service has expressed concern that this would, in fact, make their life more rigid rather than be helpful to them. But I offer it as a tool for discussion, and it has prompted interesting discussion. I hope that it continues to do so.

It is always relevant to look at the ratemaking process as long as it is going to exist. This was my modest suggestion for a change in it.

Mr. LELAND. Last week I asked Postmaster General Frank what he thought about your proposal, and he responded that it would take away flexibility. Can you comment on that?

Ms. STEIGER. Well, I think in the sense that the timing of the rates would be set and that there would be an interim requirement for this mini-review of costs, I suppose this does decrease flexibility.

In another way, however, it might to my mind increase flexibility. It would have the side benefit I think of enabling the Postal Service to get off the cycle of having to negotiate a labor agreement at the same time period it was requesting a rate increase. Both the Commission and the Service have felt that this makes life unduly difficult. And so, I would only add that I think there would be that additional flexibility. But I understand his point.

Mr. LELAND. Would any of the other commissioners like to comment at all?

Ms. STEIGER. I must say I am fully responsible for this, by the way.

Mr. FOLSOM. I think it is a move in the right direction. At the present time there is an uncertainty as to when rate cases would come before us. The Postmaster General hopes to make it in four years, but today it looks like it is going to decrease rather than increase over the present three years.

This would make rate cases, in my own opinion, simpler, less costly. The rate cases today have become very complex and require some high-priced players, and I think the idea would decrease the effort that had to be put in, and that is money, by the intervenors, as well as the Postal Service, and as well as the Commission.

Mr. LELAND. Anybody else?

Ms. TYSON. I think it does represent an effort to refine the process. And the process I think should be scrutinized over time to see how well it is working, and I think we probably could make some refinements in the ratemaking and the classification processes.

I think that the Chairman's proposal represents, beyond what she has said, an effort on the part of the Commission to develop a procedure for getting at greater detail in the ratemaking process. It is very hard in the 10-month period of a general rate case to do some of the auxiliary estimations and other kinds of data assembly that we would like to have.

It also would provide for a better periodic reporting from the Postal Service.

Mr. LELAND. Madam Chair, I know that in the past you had a great deal of difficulty in receiving from the Postal Service the kind of data you needed to do your job. At a hearing last week, representatives of the third class mailing industry said that that is still a very serious problem. Is that true for you also?

Ms. STEIGER. Well, I mentioned when we last testified that there had been difficulty in R87-1 with the production of data, but I hasten to add, and I will restate, we did not think that was a purposeful evasion by the Postal Service. We think that case was filed perhaps several months ahead of when it had been anticipated, and the data simply were not completed.

We feel that we have had good cooperative relationships with the Postal Service in the main since that period of time. Of course, disagreements always can still arise, and they have to be worked out.

Currently, OCA, Office of Consumer Advocate, and the Postal Service are discussing an OCA request that the Service seems to have some difficulties with, but I remain confident that those difficulties will be worked out.

And I would want to commend, as I have in the past, the Governors and the Postmaster General for their stated, and repeatedly stated, support for the production of whatever data we require wherever possible. They have not wavered in that, and we know that we can turn to them should there be a dispute, Mr. Chairman.

Mr. LELAND. The interval between rate increases has been a subject of much debate recently and previous postmaster generals have argued that a three-year interval between increases provides stability. However, many mailers have told me that that is not the case. What is your perspective on this issue?

Ms. STEIGER. Well, rate stability is good anytime you can maintain your prices and not have to raise them as a positive economic fact. We did note and we will say again rate stability of a three-year cycle tends to mean that the increases are large. And there are mailers who think it might be more beneficial to have a short cycle with smaller, more incremental rate increases.

The basic fact remains, however, that rate stability depends upon cost stability, and if costs are going to continue to rise in the manner in which they are, even that three-year cycle may become difficult to maintain.

Mr. LELAND. Thank you.

The Postmaster General has announced a new three-part agenda for the Postal Service. It calls for longer periods between the increases and improving service and improving relations between labor and management. It sounds great, but it is a big order.

I have several questions about this new agenda. Do you think that the Postal Service can accomplish this? What would have to happen for the Postal Service to reach these goals, and do you think any one goal or other is more reachable than the rest?

Ms. STEIGER. Well, we certainly think they are all commendable. We are not experts on the labor relations scene. We have noted what seems to be a very encouraging trend of cooperative discussion between labor and management on a variety of issues including complaint procedures and cooperative efforts to improve both the conditions of the work floor and its management. We applaud that. Anything that can be done is a plus.

Rate stability is going to depend on cost stability. And much of this is going to depend upon the degree of success in capturing productivity savings both in work hours and from the automated machinery. As I have said, if those savings are now occurring, the balance sheet would indicate they are not being captured. And this is a very tall order. How are you going to make those machines and the work-sharing incentives mesh and produce the productivity increases that are required? Without it, rate stability is not a possibility on a breakeven budget.

Mr. LELAND. Is that the consensus held by all of the commissioners?

Ms. TYSON. Yes.

Mr. LELAND. Several expert postal observers have said that giving the Postal Rate Commission final rate-setting authority

would result in holding down postal costs. I have two questions in this regard. Is giving this authority to the Postal Rate Commission a good idea and what would be the results of doing so?

Ms. STEIGER. Well, the majority of this commission has always supported final decision authority. First, for a rather practical matter, we think there are too many bites at this apple. We finish a very complicated rate case, render an expert decision. The Governors, however, are a part-time board. They can't be expected to relitigate that whole matter and then examine it. We also think the parties remain protected by the appellate opportunities that they have, should our judgment be in error.

I think it would give some better control over the revenue requirement of the Postal Service if, indeed, we had final decision authority. It would mean the Governors could not modify on the basis of a perceived shortfall of revenue. On the other hand, parties would still, including the Postal Service, have the protection of appellate review. So, I think for practical matters, at the very least it is reasonable, and we have long thought so.

We would offer the Governors, of course, an opportunity to at least return the decision to us once for comment. We would not want to shut out that option because they have valuable insights, and we would want to hear them. But beyond that, I think there is enough review.

Mr. HORTON. On that, would you yield just a minute?

Mr. LELAND. I would.

Mr. HORTON. Are the Governors permitted or authorized to appear before you when you are in the ratemaking process?

Ms. STEIGER. Presumably they could as expert sworn witnesses. This is not common. I don't believe we have ever had them—somebody once asked Postmaster General Bolger to appear and he declined. Basically management speaks through the words of its expert witnesses. Should one of the Governors wish to appear, presumably they could do so. I don't think there is any legal bar.

Mr. HORTON. But you have never had any instance where they have appeared or attempted to submit any testimony to you or any views as far as the Board of Governors is concerned?

Ms. STEIGER. No. We presume the rate case submitted reflects their views since they do vote on it, of course, before it is sent to us. We have never had individual views submitted to us.

Mr. HORTON. Thank you.

Mr. LELAND. The Bush Administration budget proposals for the Postal Service in my opinion are unsound and would cause great damage to our postal system. I would like to know what your position is on the administration's budget proposals for the Postal Service.

Ms. STEIGER. I have to confess that I am not quite sure where that proposal is and what it is. I have read the February 9 document, and it has no specific reference to postal that I can find.

I understand the committee is presuming that the Reagan Administration budget is the Bush budget. Whether that will finally be the case or not, I don't know. Mr. Darman has repeatedly stated that everything is on the table, and these are talking points.

We have commented in the past about revenue foregone, as you know, quite extensively, which is one of the items. The majority

thinks you could abolish it by creating a sub-class. We realize this has not met with favor. It is still an option.

We would raise questions about the separate rate for government mail in particular. This, of course, would require a legislative initiative. It would, at the outset, raise questions, I think, by other mailers of fairness and discrimination. There would be those who said, "Wait a minute. My mail has the same characteristics. It is as clean. It is as large in volume. And why should the government be allowing itself a separate rate category when my mail shares its characteristics?"

As importantly from a technical point of view, we are very concerned about the numbers on government mail. As I believe we reported a year ago, we made an adjustment in the rate case because we felt there was difficulty with the revenue per piece and the cost per piece figures. They have been very volatile. And at the very least, before anything were done in that regard, you would want to make sure that you had totally accurate figures. They are bouncing.

Mr. LELAND. What is your opinion about the Postal Service being a part of the unified Federal budget?

Ms. STEIGER. We have separate opinions on this I would add.

Mr. LELAND. Good, then I will ask everybody. Madam Chair, why don't I let you be the last? You can do the wrap-up.

Ms. STEIGER. Oh, I'll go first.

Mr. LELAND. Okay.

Ms. STEIGER. I have said in the past from a purely postal point of view, probably take them off. But I am not an expert on the unified budget, and I don't know the ramifications of it. But the Postal Service is on an accrual, not a cash basis. I believe GAO has also said from a purely postal point of view, they wouldn't object to taking them off, but would prefer to see it done with a unified context. So, that is sort of an on-the-one-hand/on-the-other answer.

I remain very concerned about borrowing levels, concerned in the sense that I fear people think it is a free lunch. And at the end of the past fiscal year, the Postal Service indicated that debt service was now $763 million a year. I think this raises the questions of continued oversight of return on investments in particular, and I would not like to see that oversight lost. But from a purely postal point of view, I would take them off budget.

Mr. LELAND. Any dissenting comments?

Mr. CRUTCHER. Mr. Chairman, I think they should remain on budget primarily because, notwithstanding the fact that there is a lot of talk about it being a private corporation, it is still a big government agency. And I think there is not enough oversight the way it is. And one more point of contact to look at the overall postal budget I think is healthy.

Mr. LEBLANC. This may end up a two-three split again. Independency is an amazing thing.

But I agree with my colleague, Mr. Crutcher, that they should stay on budget. When you look at the figures, when you look at the productivity, volume, revenue, et cetera that our chairman has talked about this morning, if anything, more oversight is needed than less oversight. So, I would agree with Commissioner Crutcher that it definitely should stay on budget.

Mr. LELAND. Are you suggesting more government oversight?

Mr. LEBLANC. Well, I am suggesting help wherever help is needed whether that is government oversight or whatever. But to take them off of budget at this point, with a $39 billion budget and productivity declining, with the expenses seemingly out of control and costs out of control, I think they need help. Now, whether that is government or not, I'm not in the position to make that decision. But some oversight, some extra help is definitely needed, yes, sir.

Ms. TYSON. I have always been concerned that the cyclical nature of the postal process leads to distortions in Federal budgeting. I don't think that taking the Postal Service off budget implies less oversight. Rather, I think that continued vigorous scrutiny by this committee and by its Senate counterpart will have a more significant affect than leaving the Postal Service on budget and having the budget committees or other entities look at it in the context of the whole budget. I would like to see you bring to bear increased oversight certainly, but I don't think it is necessary to leave the Postal Service on budget for that to take effect.

Mr. LELAND. Mr. Folsom?

Mr. FOLSOM. I have a very practical reason for thinking it should be off, and that is the Federal budget is an annual proposition. Now, if you have a three-year stability, in effect, you have locked in the Postal Service for a three-year period. So, they are out of mesh. If the Federal budget the first year that we put in—they put in new rates that we recommend—cuts their budget, then the next two years they are going to have problems. With all due respect, I don't think that the Federal budget is a panacea the way it is handled for us to put anybody else into.

Mr. LELAND. Amen. All we have to do is look at the military budget of the Defense Department, then we can determine.

But anyway, I appreciate the comments from all of you. I certainly know that you know that I have a bill to take the Postal Service off budget. And I wanted to hear the comments from you because you have a certain perspective that is different than most. And I was just reminded we have 295 cosponsors. So, there are at least 295 people who agree and I presume with the three of you rather than the two of you. I appreciate the majority of the members of the commission supporting my bill. [Laughter.]

Mr. LELAND. Thank all of you.

Mr. MCCLOSKEY. That was an excellent job of questioning and commenting, Mr. Chairman. I don't really have too much to say. Maybe one or two quick questions.

I too obviously welcome Chairman Steiger and all of the Commissioners, and it is great to see you again. And we do appreciate your constant expertise and oversight.

I would just like to ask generally is there any sense of intense concern or near crisis in the Postal Service that you can detect as to the fact, Madam Chairman, that they are almost a billion dollars off in their revenue projections—on the down side—this fiscal year?

Ms. STEIGER. I don't think I would characterize it as a sense of crisis, but we did learn from APMG Coppie just a couple of weeks ago that they have started a very serious effort to spread the word to the field that work hours must be contained and that cost sav-

ings must be achieved. So, I think there is now a concerted effort under way.

We hope that they are successful. If they are not, their $600 million anticipated surplus is very optimistic. So, we wish them well, and I do think there is a recognition, as Mr. Coppie's statement would indicate, that they have work to do.

Mr. McCLOSKEY. You sincerely think they are now more concerned for management and implementation than they have been previously.

Ms. STEIGER. Their statements would certainly indicate so.

Mr. McCLOSKEY. What do you think we are looking at now—and you may not care to venture—regarding the next rate increase. I mean, from the sound of this, one will have to be in place by the end of 1990.

Ms. STEIGER. Well, the Postmaster General has said he is going to be looking for new rates early in 1991. Now, I don't know whether this is calendar or fiscal. And as you know, it could make a three-month difference.

We see no reason to disagree with that. We think he is quite right. This will mean a filing sometime early in 1990. They are predicting at this point in time a loss of some—what—$800 or $900 million. Again, if they do not achieve these cost containments that they are aiming for that may be an optimistic figure as well.

We do think there is no question they will need new rates by early 1991. I think the question is is it calendar or is it fiscal.

Mr. McCLOSKEY. Thank you, Madam Chairman.

Mr. LELAND. Let me thank all of you for coming today. We really appreciate it.

Mr. Folsom?

Mr. FOLSOM. I would just like to say, if I may, that if the rumors are true that you got from Madam Chairman, this might be the last appearance that she will make here as Chairman of the Postal Rate Commission.

I would like to just say that she has done a marvelous job. I have been there seven years. John Crutcher and I came together, and there was divisiveness within the Commission. She has brought it around to a collegial group with a fine working atmosphere. As you can see, we don't always agree, but we are ladies and gentlemen. I think she has increased the professionalism of the staff in the Commission. And I would like to just state that for the record.

Mr. CRUTCHER. I would like to associate myself with the remarks of Commissioner Folsom. Commissioner Steiger has done an absolutely splendid job in the time she has been chairman of the commission, and she deserves the praise of all of us.

Mr. LEBLANC. Mr. Chairman, when I came to the commission, this was my first jaunt into the governmental arena, political arena to some degree, but I really didn't know what to expect. Having come from a private business and running my own business where you are your own boss, and you can do things the way you see them, our chairman made life a lot easier for me; and I want to publicly thank her and agree with Commissioner Crutcher and Commissioner Folsom on what a tremendously fine job she really does. Thank you.

Ms. TYSON. Well, last but not least in terms of my admiration, I have spent almost my entire professional life in government, and I want to say that I think that Janet Steiger embodies the best the distinguished and dedicated Federal servant has to offer. I am very proud to have served under her outstanding chairmanship.

Mr. LELAND. Well, needless to say, we on the committee and I know that even my colleagues who are absent today feel exactly the same way. I have known you for some years now, and have had the honor and privilege of listening to you as you have testified before this subcommittee or these subcommittees in the past, and have been very much impressed, to say the least, and very honored to have you come before us. You put an incredibly beautiful cloak over the face of the commission and for that, we appreciate it, not to mention the professionalism that has been expressed here.

And to hear from your colleagues that they feel pretty much the same—and they know you best—is quite an honor. We want to join in with them in expressing our thanks to you for your service in this capacity and appreciation for the manner in which you have conveyed your sentiments and the manner in which you have conducted your business as chairman of the commission.

Ms. STEIGER. Thank you, Mr. Chairman.

Mr. LELAND. Thank you.

[Response to written questions follows:]

POSTAL RATE COMMISSION
Washington, D.C. 20268-0001

Office of the Chairman

April 21, 1989

Hon. Frank McCloskey, Chairman
Subcommittee on Postal Personnel
and Modernization
Committee on Post Office and Civil Service
209 Cannon House Office Building
Washington, D.C. 20515-6250

Dear Chairman McCloskey:

Attached are the Commission's answers to your six additional questions for the record of the March 15 oversight hearing.

Please let us know if we can be of further assistance.

Best personal regards.

Sincerely,

Janet D. Steiger

RESPONSES TO QUESTIONS FROM CHAIRMAN MCCLOSKEY

[1] Do you have any ideas as to why the FY 1988 workyears increased by 3.1 percent despite the savings that were achieved in order to offset the payment required by OBRA?

The seeming inconsistency between achieving savings, as required by the budget legislation, and incurring a substantial increase in workyears, reflects the fact that the legislation did not require the overall level of costs to be held constant. In effect, it called on the Postal Service to save a certain number of dollars by comparison with what its costs would be -- *ceteris paribus* -- absent the legislation. As GAO established, the specified dollars were saved; however, the savings were achieved in a restricted number of operational areas, making it possible for workhours (and therefore costs) to rise elsewhere.

[2] Do you think, given the Postal Service's past record, that the Postal Service will be asking for a higher contingency fund in the next rate case?

In Dockets R87-1 and R84-1 the contingency requested and recommended was 3.5%. In the next rate case, the same percentage would imply an increase in the dollar contingency, because of inflation and because the organization is growing.

It is much more difficult to say whether the Service might ask for a larger percentage than in the last two cases. The Commission is not privy to the financial planning considerations that presumably underlie the determination to

request a particular level. To the extent that the Service's "past record" might be the motivation, we would hope that its "pastness" would enable postal management to devise effective remedies and cost reduction mechanisms, as they are now attempting to do, rather than relying on the contingency provision (which should be a protection against unknown or unforeseeable events).

[3] Given your expertise on rates, do you think that government mail should be given a special subclass at a reduced rate?

Perhaps the most evident comment to make on the proposal is that it is only in a second-order sense a ratemaking matter.[1] Congress has at times promoted other national programs at the expense of theoretical postal ratemaking consistency, as by maintaining some categories of free mail. Whether deficit reduction is a policy justifying a potentially fairly large reallocation of institutional-cost burdens is more than a postal rate issue, given the broad potential consequences of the deficit.

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[1] From the standpoint of theoretical ratemaking, in the strictly economic sense, the government subclass proposal might be criticized by large nongovernment mailers who felt able to tender equally low-cost mail and so make an equally plausible claim to lower rates. (We assume, for argument's sake that government mail is cheaper to handle than the average of corresponding classes; if it is not, the proposal for a lower-priced subclass presumably does not rest on technical ratemaking premises at all.) Since the government subclass proposal originates in budgetary concerns, it seems that sharing the hoped-for low price(s) with other mailers would be comparatively ineffective as an anti-deficit measure. The larger the subclass receiving favorable treatment, the larger the (restricted) markup on the remaining subclasses has to be in order to assure breakeven; since the government mail markup would in turn depend on the markup assigned corresponding non-government categories, the hoped-for savings would be diminished.

Looking at the proposal from a more technical ratemaking focus, it should be noted that setting separate government rates could be somewhat troublesome given the present state of Postal Service data collection and reporting. Currently, the Service does not report government mail costs class by class, and reports class-by-class government volumes only when a rate case is filed. Substantially more data would have to be assembled and made public in order to effectuate a policy of separate government subclasses.

> [4] Do you have any ideas as to why the Postal Service is having problems in reducing workhours in light of the increasing use of automated equipment?

This and related questions were considered in the study the Commission recently furnished at Senator Pryor's request. The Service claims one reason is that volume growth has been rather flat -- leading to short-run problems in "managing down," and corresponding overconsumption of workhours. The Service also believes that introduction of the new equipment has in itself complicated management, by changing mail flows and processing patterns. This also should be a relatively short-term problem.

As we noted in the study furnished to Senator Pryor, however, the per-piece distribution labor cost of at least one major mail category (nonpresorted First Class) seems to have been essentially level since the beginning of the automation effort.[2] *Staff Study on the Postal Service*

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[2] The Service's calculations (the basis of which we do not know) do not reflect this result but indicate substantial savings.

OCR/Barcode System (March 28, 1989), at 11-13. This longer-term phenomenon suggests that the current discrepancy between achieved workhour results and what would be expected from the automation effort may have other causes besides the short-term ones identified by the Service.

It would appear that so long as volume continues to increase, albeit at a slower pace, normal attrition through retirement or other causes should provide a reasonable opportunity for capturing cost reductions resulting from automation and other types of productivity gains.

[5] Do you know why First Class mail volume increases were overpredicted?

This question is difficult to answer with precision due to the nature of the process used by the Service and the Commission to forecast volumes. The process involves a statistical analysis of historical volume, price, and macroeconomic data to estimate quantitative relationships among these variables. These estimated relationships are assumed to be valid in the future forecasting period. If some new factor emerges that was not accounted for in the historical analysis of First Class volume, the future volume forecast will be inaccurate. Also, the forecasts will inevitably be somewhat inaccurate due to the fact that the process of identifying and estimating quantitative relationships is subject to error.

In spite of these limitations, we can identify several factors that may have caused actual First Class volume to be lower than anticipated. We will focus on the three postal quarter period since new rates went into effect: 1988 Postal Quarter (PQ) III - 1989 Postal Quarter I. The First Class

volumes (letters and cards) we predicted in our Opinion and Recommended Decision for this period are shown below, along with the actual volumes and the percentage difference between the predicted and actual values:

First Class Volumes (billions)

	88PQ3	88PQ4	89PQ1	Total
Predicted:	19.1	24.1	20.8	64.0
Actual:	18.6	23.7	20.4	62.7
% difference:	2.7	1.7	2.0	2.1

It should be remembered that these forecasts were made from six to eight quarters ahead of the most recent actual volume data available at that time.

One reason for the overestimate in our volume forecast is that we used the Postal Service-supplied date for the implementation of new rates, 1988 Postal Quarter IV, whereas the rates were actually put into effect almost one quarter earlier. Had we used the earlier date, our three-quarter forecast would have been a somewhat lower 63.6 billion pieces, or only 1.4 percent higher than the actual value. We feel that a forecast error of only 1.4 percent in the three-quarter total would be good under these circumstances.

We can only speculate as to the reason for this 1.4 percent discrepancy. It may be that a new significant trend in First Class volume has developed, such as diversion of volume due to the advent of low-cost fax machines. It could also be that the price elasticity of First Class is higher than that found by the Postal Service and adopted by us in our decision.

[6] Since third class mail volume is still doing better than forecast by the model used in the last rate case, do you seriously believe that mailers will jump ship as they are threatening should the rates increase dramatically in the next rate case?

It is true that the volume reaction to the large Docket R87-1 increase has been less marked than the forecasting model suggested. (As the decision makes clear, we moderated the increase, by comparison with the increase in costs, in order to mitigate that expected effect.) Unfortunately, this circumstance does not give a very secure basis for predicting what might happen in the presence of a hypothetical "dramatic" increase in the next case.

First, as a general matter, the price sensitivity of any product is not likely to be constant over large changes in price.[3] Nor will all consumers of the product show the same demand behavior under those conditions. Some may, for instance, reduce their consumption to a certain indispensable level and then become essentially insensitive to price; others may abandon the product at a monotonically increasing rate as its price goes up.

With more specific reference to the next rate case, it must also be recognized that important changes in the structure of third-class rates are being widely discussed as a possible issue. These changes, should they be proposed and adopted, could have an effect on demand quite independent of that due to price alone.

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[3] This is true as a matter of theory even where there are no substitutes for a product. Where there are -- as is often claimed in the case of third-class advertising mail -- predicting future reaction to large price changes becomes even more problematical.

These difficulties in prediction make it all the more important to gain control over the underlying costs, so that it becomes less necessary to propose dramatic increases for <u>any</u> class of mail.

Mr. LELAND. Now we will have the GAO come forward. Mr. L. Nye Stevens, Director, Government Business Operations Issues.

Mr. Stevens, you may proceed in whatever manner you so desire. And also, I would appreciate it for the purpose of the record if you introduce your colleagues.

STATEMENT OF L. NYE STEVENS, DIRECTOR, GOVERNMENT BUSINESS OPERATIONS ISSUES, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY WILLIS ELMORE AND LEONARD HOGLAN

Mr. STEVENS. Yes, sir. I will be glad to. On my right is Willis Elmore, who has headed the work that we have done at the Postal Service since the late 1970s. He is the closest thing to an expert GAO has. And on my left is Leonard Hoglan who is an evaluator at the postal site and who has been in charge of our work on the Budget Reconciliation Act.

Mr. LELAND. Let me say, Mr. Stevens, before you proceed that Mr. Elmore has been especially helpful to the subcommittee and I really wanted to acknowledge the appreciation we have for the support he has given us.

Mr. STEVENS. I am very glad to hear that, sir.

I will with your permission, sir, shorten considerably the statement that we would like to submit for the record.

Mr. LELAND. Without objection, the full text of your statement will be included in the record. And we appreciate the brevity of your statement.

Mr. STEVENS. This is a very interesting time for the Postal Service, Mr. Chairman, as it faces challenges on many fronts. This is reflected in the variety of the ongoing work that GAO is doing, virtually all of it in response to requests from your subcommittees and other committees of the Congress.

We have current work going on to evaluate land acquisition practices, construction cost estimating and the way the Postal Service procures its postage stamps.

In the area of labor-management relations we are fairly well along in comprehensive reviews for your subcommittees on postal disciplinary practices and on the workers' compensation program as well as the Service's response to some fairly well publicized labor-management relations problems in Indianapolis and Oklahoma City.

We are also preparing a report on the status of mail delivery in northern Virginia that has gotten considerable local attention, and have recently begun survey work which looks historically at Postal Service labor costs.

We are doing, as I mentioned, a good deal of budgetary work, and I would like to come back to that in a moment.

Our recently completed reports—Chairman Leland, you mentioned a number of them in your own statement, and I won't repeat those. I will mention just a couple that were not included.

One of these was our testimony in June of 1988 on legislation to remove the Postal Service Fund from the Federal budget process. GAO has traditionally favored a comprehensive budget. However, because of certain deficiencies in the current unified budget struc-

ture and the fact that they create special problems for entities like the Postal Service particularly in the context of the Gramm-Rudman-Hollings automatic cut process, we did not object to the proposed revisions for removing the Postal Service from the budget. At the same time, we emphasized our preference for addressing the Postal Service budget issues, which are real, within the context of reforming the Federal budget on a unified basis. And I will explain more about that if you would like.

Last summer also we reviewed the Postal Service's sole source contract with Perot Systems Corporation, and testified that the contract was loosely written in some key particulars such as the ownership of management savings ideas developed under the contract.

A report that was issued just last month covered how well the Postal Service coordinates with state and local units that are affected by decisions to relocate post offices. We found that in general the Service was complying with its community coordination policy and that based on some case studies, a common scenario is that local communities are upset when they first hear about this, often complain to their Congressmen about it, but that eventually by going through the complete coordination process, the community eventually comes to realize that there are benefits to new facilities.

Let me turn to the budget reductions and particularly the operating budget which I will deal with first.

In October we reported that the Postal Service complied with the fiscal year 1988 operating budget reduction mandate of the Reconciliation Act calling for a reduction of $160 million. We were able to verify cost savings in excess of $188 million, putting the Postal Service in compliance with the terms of the law even though its overall costs exceeded budget levels, and that is because the Reconciliation Act did not specify either a starting level or a ceiling on expenditures.

In this fiscal year, the Postal Service is required to reduce its operating budget by $270 million. And again, we are reviewing the service's compliance with this plan under Mr. Hoglan's leadership. While it is too soon to say whether the service will save $270 million this year, we are concerned about how to measure some of the savings, particularly those due to the deployment of automated and mechanized mail processing machinery. Employee reductions from automation come gradually over a period of time and through attrition. We are finding it difficult to identify or verify short-term savings that we can attribute to the installation of specific pieces of equipment as the Postal Service has claimed in its plan.

The capital budget. I will skip over last year's situation which was quite severe, and note only that for 1989 the act limits capital commitments to just under $2 billion, which is about a 23 percent reduction from their original plan for 1989.

The budget plan calls for $1.2 billion to be committed to facilities, which took a very severe hit last year, and the remainder to mail processing equipment and vehicles, customer service equipment and postal support equipment. During 1989 the Service expects to fund construction of an estimated 700 post offices nationwide plus several major mail processing facilities.

As you know, funding for capital investments has in recent years come from borrowed funds. The Postal Reorganization Act authorizes the Service to issue and sell debt, but not to exceed $10 billion outstanding at any one time. We calculate that if the Service is to meet its capital investment plans beyond 1991, the borrowing will need to be raised or funding will have to be provided from current operations which, of course, would have a major impact on the postal rate intervals that you were discussing with the Postal Rate Commission.

As the Postal Service nears its 20th year, the Postmaster General has set an agenda to expand the interval between rate adjustments, to provide the best possible service to the American people, and to establish a better relationship between labor and management. We applaud these objectives, but we note that they are also potentially at odds with each other.

For example, lengthening the rate cycle will require sustained cost containment efforts, and a system-wide review of all costs was begun by the Postal Service in 1988 to identify and act upon 10 to 20 initiatives with the potential to save $100 million to $200 million each. This review is ongoing, but based on past experiences, in our judgment there is no reason to be optimistic, overly confident, about the results. Costs have been going up at a rate of about $2 billion a year for the past five years. A cost containment effort of $363 million in 1987 failed by 59 percent.

To reduce operating expenses by $160 million in 1988 as the Reconciliation Act required, the Service believed that it had to curtail window services and other customer services. And the public reaction certainly indicated that the American people did not believe that their service quality expectations were being met.

Delivery services, that cost about $10.7 billion in 1988, continues to increase by about $1 billion a year, this year over last year, and is not yet a candidate for significant cost containment initiatives.

In addition, additional work-sharing and contracting out initiatives being studied could impede achievement of one of those agenda items, which is better relationships between labor and management.

We could say a good deal more on any of these subjects, Mr. Chairman. I think I will stop the prepared statement there and respond to any questions you or Chairman McCloskey have.

[The prepared statement of Mr. Stevens follows:]

United States General Accounting Office
Testimony

Statement of
L. Nye Stevens, Director
Government Business
Operations Issues

Messrs. Chairmen and Members of the Subcommittees:

I am pleased to be here today to discuss our recent and current work on the Postal Service. I would like to first summarize our current work, then the reports and testimony prepared since our appearance before you last year, and finally address some budget and financial issues.

Virtually all of our work at the Postal Service continues to be in response to congressional requests. These have come from several sources in addition to your own very active Subcommittees. The Service's budget, workforce, dispersion, and integral relationship with rest of the economy are so large and pervasive that how it handles its responsibilities is a major national concern. Its unique independent structure still causes controversy after 20 years. While our work has been and continues to be highly varied, we believe it touches on many of the critical issues facing the Postal Service as it approaches its third decade.

Our current work illustrates this variety. We will be issuing a report later this year on the practices and procedures used to acquire land for new post offices. We have initiated work which looks at the cost estimating system used by the Postal Service to prepare budget estimates for new construction. For construction projects completed during 1988 we will determine how actual construction cost compared with initial estimates. We are also looking at the status of and rationale for the Postal Service's

study proposal to contract half or more of postage stamp production to the private sector as opposed to the Bureau of Engraving and Printing.

In May we expect to issue a report and testify on employee discipline and whether it is administered consistently throughout the Service. We are also reviewing administration of the Postal Service workers' compensation program, and the Service's response to labor relations problems in Indianapolis and Oklahoma City. We are also preparing a report on the status of the Service's efforts to improve mail service in Northern Virginia. We recently began survey work which looks historically at Postal Service labor costs, and are also reviewing the Service's compliance in fiscal year 1989 with the budgetary savings requirements of the Omnibus Budget Reconciliation Act of 1987 (Public Law 100-203). As you know, the Reconciliation Act placed several restrictions and requirements on Postal Service spending which I will come back to in a moment.

COMPLETED REPORTS AND TESTIMONY

In June 1988, we reported on how the Postal Service dealt with the tragedy in Edmond, Oklahoma, where, in August 1986, a postal employee shot to death 14 of his co-workers and wounded 6 others before taking his own life. The Postal Service had to quickly improvise solutions to numerous problems, including assisting

victims' families in obtaining entitled compensation and dealing with the traumatic effects on employees, the victims' families, and operations of the Edmond Post Office. Some of the families felt that the Postal Service did not provide them the promised assistance in obtaining their benefits.

We found that the Postal Service organized immediate assistance to the victims' families in preparing and submitting the necessary initial documents to obtain benefits such as life insurance, burial benefits, and unpaid compensation.

Follow-up assistance, however, was less well organized. Unlike many other large public and private sector organizations, the Postal Service did not have preplanned crisis management procedures for managing the aftermath of traumatic events affecting either employees or customers. In line with our recommendations, the Postmaster General directed that contingency plans be developed to deal with similar events in the future.

The Edmond incident raised questions about the adequacy of Postal Service preemployment screening and personnel management practices. Accordingly, we assessed applicant screening and personnel management practices, and evaluated the adequacy of actions taken by the Postal Service to improve the screening of new employees.

While the Service's preemployment screening policy is to check applicants' records with former employers and law enforcement agencies, none of the 15 post offices covered in our report were in full compliance. Of 1,289 newly hired employees, about 63 percent were hired without employment checks with their former employers, and 58 percent were hired without a police check. Reasons for noncompliance included law enforcement agencies being prohibited from releasing criminal history information, employers' concerns over privacy issues or law suits, and no attempt by postal hiring personnel to obtain the necessary information.

In June 1988 we recommended that procedures be established to alert the selecting official when police and prior employment checks had not been done, and that hiring officials be instructed on how to proceed when screening checks from police and prior employers are missing. Subsequently, screening procedures were strengthened in line with our recommendations.

In October, we reported that the Postal Service complied with the fiscal year 1988 operating budget reduction mandate of the Omnibus Budget Reconciliation Act of 1987. It required the Postal Service to reduce operating cost by $160 million and make a corresponding payment to the Federal Employees Health Benefits Fund.

The Postal Service's cost reduction plan for 1988 called for reductions in administrative personnel, travel, training, supplies and services, and research and developments funds; use of less expensive or less frequent mail transportation; efficiencies in mail processing; fewer mail collections; and reductions in customer services, including window service. These initiatives were estimated to save $173.8 million or $13.8 million above the $160 million required.

The cost reduction initiatives produced documented savings in excess of $188 million, putting the Postal Service in compliance, even though its overall costs exceeded budgeted levels.

In June 1988 we testified on the Postal Service budget process and provided our views on the "Postal Reorganization Act Amendments of 1988". This legislation would have made significant changes in the status of the Postal Service Fund, primarily by removing it from the federal budget process and by increasing the Fund's borrowing authority from $10 billion to $30 billion.

GAO has traditionally favored a comprehensive budget. However, because certain deficiencies in the current unified budget structure create special problems for entities such as the Postal Service -- particularly in the context of the Gramm-Rudman-Hollings process -- we did not object to the proposed provisions

for removing the Postal Service Fund from the budget. At the same time we emphasized our preference for addressing the Postal Service budget issue within the context of a unified federal budget on a restructured basis.

Last summer we reviewed the Postal Service's sole-source contract with Perot Systems Corporation and testified in August that the contract was loosely written in some key particulars, such as ownership of management savings ideas developed under the contract.

In February 1989 we reported on how well the Postal Service coordinated with state and local organizations affected by the Service's decisions to relocate post offices. We reviewed a sample of relocated facilities and found that the Postal Service was generally complying with its community coordination policy.

BUDGET REDUCTIONS

I would like now to turn back to the Omnibus Budget Reconciliation Act of 1987 and its impact on the Postal Service.

Capital Budget

The Act significantly reduced the Postal Service's capital investment program in fiscal year 1988. The Service initially

had an approved $2.4 billion capital investment plan for the year under which it was operating through the first quarter. Then in December, the Act imposed a capital commitment limitation of $625 million for the year, thus reducing the plan by $1.8 billion. Postal management was forced to review projects scheduled for contract award in 1988 and allocate funds to the most important.

For 1989, the Act limits capital commitments to $1.995 billion. The Service's budget plan calls for $1.2 billion to be committed to facilities and the remainder to mail processing equipment, vehicles, customer service equipment and postal support equipment. During 1989 the Service expects to fund construction of an estimated 700 post offices nationwide plus several major mail processing facilities. As of February 10, 1989, $464 million of this year's capital budget had been committed.

The Capital Investment Plan for fiscal years 1989-1993 looks to sharply upgrade plant and equipment by committing $12.9 billion towards capital improvements with 52 percent, or $6.7 billion, going into new facility projects and 45 percent, or $5.8 billion, going towards new technology and automation equipment. The plan includes more than 6,200 separate facility projects, the majority involving upkeep or construction of smaller post offices. Plans are to fund many facility projects that were put on hold during 1988 because of the Budget Reconciliation Act. Facilities are prioritized based on their importance to the national mail

processing network, high volume growth, or other factors such as the age and safety of an existing facility.

Funding for capital investments has in recent years come from borrowed funds. The Postal Reorganization Act authorizes the Postal Service to issue and sell debt obligations but not to exceed $10 billion outstanding at any one time, with not more than an increase of $1.5 billion in any one year for capital improvements. As of September 30, 1988, long-term debt borrowing totaled $5.6 billion. Assuming a continuing need to borrow $1.5 billion per year, the Postal Service will reach its authorized limit in fiscal year 1991. If the Service is to meet its capital investment plans beyond 1991 the borrowing cap will need to be raised, or funding will have to be provided from current operations.

Operating Budget

In fiscal year 1989 the Postal Service is required to reduce its operating budget by $270 million and make a similar payment to the Federal Employees Health Benefits Fund. As required, the Postal Service submitted a plan to the oversight committees showing how it expects to achieve the savings. The plan (including a buffer of $18 million for a total of $288 million) calls for a reduction of field administrative hours, travel, and training of $147 million; transportation savings of $29 million;

savings from elimination of certain Sunday operations, $26 million; reduced merit pay increases, $30 million; and savings from deployment of automated and mechanized mail sorting equipment, $56 million. Most of these savings initiatives were begun in fiscal year 1988. We are reviewing the Service's compliance with its plan, and as required by the Act, will issue a final report to the oversight committees by October 31.

While it is to soon to say whether the Postal Service will save the $270 million this year, we are concerned about how to measure some of the savings, particularly those due to the deployment of automated and mechanized mail processing machinery. The Postal Service has for some time had a continuing program to introduce new mail processing equipment in order to improve productivity and service. There is no doubt that over the medium and long run the productivity of mechanized and automated sorting machinery has reduced costs, or, to be more accurate, lessened the increases in costs which have gone up with the increase in mail volume. However, the deployment of specific machines may not reduce personnel costs in the short term, which for purposes of compliance with the Act, means fiscal year 1989. Employee reductions from automation occur gradually through attrition. We are finding it difficult to identify savings that we can attribute to the installation of specific pieces of equipment, as claimed by the Service.

FUTURE AGENDA

As the Postal Service nears its 20th year, the Postmaster General has set an agenda to

-- expand the interval between rate adjustments,
-- provide the best possible service to the American people, and
-- establish a better relationship between labor and management.

The agenda is ambitious and its accomplishment will place severe demands on the management resources of the Postal Service and the leadership abilities of the Postmaster General himself. The objectives are interdependent but also potentially at odds with each other.

For example, lengthening the rate cycle will require sustained cost containment efforts. A systemwide review of all costs was begun in 1988 to identify and act upon 10 to 20 initiatives with potential to save $100 million to $200 million each. This review is ongoing but, based on past experiences, there is no reason to be optimistic about the results. A cost containment effort of $363 million in 1987 failed by 59 percent. To reduce operating expenses by $160 million in 1988 (the amount required by the Omnibus Budget Reconciliation Act), the Service believed that it had to curtail customer services, including window services. The public reaction certainly indicated that the American people did

not believe their service quality expectations were being met. Delivery services, costing $10.7 billion in 1988, continues to increase (by about $1 billion in 1988 over 1987) and is not yet a candidate for significant cost containment initiatives. In addition, additional worksharing and "contracting out" initiatives being studied could impede better relationships between labor and management.

The Postal Reorganization Act of 1970 created a unique entity within the federal government, blurring the traditional differences between the public and private sectors of the economy. The past year has seen the suggestion of alternative structural arrangements for the Service, from privatization initiatives on the one hand to closer adherence to federal practices -- as in procurement and budgetary involvement -- on the other. How well the Postal Service and its employees, both management and labor, succeed in cooperating to meet the public demand for service at a reasonable cost can have far-reaching implications for the way Americans regard experimentation with different forms of organizing public enterprise.

That concludes my prepared statement, Messrs. Chairmen. I would be happy to answer any questions you may have.

Mr. LELAND. Thank you, sir, very much.

Chairman Steiger has made a proposal for extending the interval between rate increases from three years to four with a review every two years. Have you had a chance to study this proposal?

Mr. STEVENS. We really have not given that serious thought, Mr. Chairman, other than I am sure we would all agree that the longer the interval between rate increases, the more stability there is and the better it is for everyone.

Mr. LELAND. Let me ask you. If you can comment on this through correspondence, I would appreciate it, and we would ask unanimous consent that that be included in the record once we receive it.

Mr. STEVENS. Yes, sir.

Mr. LELAND. Thank you.

[The information referred to follows:]

Postal rate making is laborious and any suggestion which seeks an improved process should not be taken lightly. The change proposed is to have scheduled rate changes every 2 years. The first new rate case would be based on a Postal Service financial plan for a 2-year period and would consider all the issues now addressed in a major rate case. The next rate case—2 years later—would also use a 2-year financial plan but rates would just be adjusted proportionately to maintain a break-even position over a 2-year period. Assuming that postal rate making would not become more laborious, there are not glaring shortcomings in the proposed change. A benefit would be having a Postal Service financial plan on the public record. This would make postal management more publicly accountable for incurred costs.

Mr. LELAND. The Postmaster General has announced a new three-part agenda for the Postal Service. You heard me ask the question earlier. It calls for longer periods between rate increases, improving service, improving relations between labor and management. It sounds great, but is it a tall order?

Mr. STEVENS. We believe it is a tall order and that some of these goals may not be mutually achievable to the same extent as the others. They are interdependent and they could work against each other.

For instance, major efforts on cost containment certainly have implications for the harmony between labor and management that is required.

Mr. LELAND. Several expert postal observers have said that giving the Postal Rate Commission final rate-setting authority would result in holding down postal costs. What are your comments?

Mr. STEVENS. I think I will ask Mr. Elmore to respond to that. He has a longer perspective than I do.

Mr. LELAND. Very good.

Mr. ELMORE. Mr. Leland, I don't believe I would be in favor of giving the Postal Rate Commission final ratemaking authority simply because the Postal Service management and the Board of Governors are charged by the Reorganization Act for managing the Service. If you are charged with managing, you should have control over your revenue. Revenue is just half the pie. I think it would handicap to a greater extent than Postmaster General Frank thinks he is handicapped now, and he has problems now, of course, with the 10-month rate case.

I have no problems with the Postal Rate Commission looking at the Postal Service's proposal. I think we should retain the Postal

Rate Commission as an oversight on Postal Service proposals for increased rates to meet their revenue requirements, but I would prefer to leave it as it is in the act now with the governors having final authority unanimously to override the commission if they want to.

And in the past couple of rate cases, there hasn't been too much difference between what the Rate Commission gave the Postal Service and what they asked for. I mean, essentially the Rate Commission has given the Postal Service what they asked for.

Mr. LELAND. The Postal Rate Commission told us that third class mailers have advocated an end to the private express statute's monopoly over third class addressed letters. At what point do you think there would be good reason to give that serious consideration?

Mr. STEVENS. We can think of no appropriate point, Mr. Chairman. We have not given serious study to the Privatization Commission's recommendation with regard to the Postal Service, the main reason being nobody in Congress has asked us to.

Mr. LELAND. I hear you.

Have you had a chance to look at the Bush proposals for the Postal Service, its plan for the Postal Service?

Mr. STEVENS. Just briefly. It is quite a complicated proposal with broad outlines only.

Mr. LELAND. What are your initial thoughts, if you have any?

Mr. STEVENS. A couple of the items are somewhat troublesome. Chairman Steiger mentioned the proposal for a different rate for government mail. Our perspective on that is that it would be difficult to justify that without giving differential and favorable rates for other large business kinds of mailers.

Also, I think there has been no attempt in the OMB proposal to investigate the possibility that postage savings can be made at the other end through the government agencies taking advantage of the same kinds of discounts, efficiencies, work-sharing arrangements that large mailers that want to minimize their postage bills are routinely doing.

So, I think that they haven't explored all the possibilities or even all the implications of that particular proposal.

Do you want to add anything on that, on the President's budget proposals?

Mr. ELMORE. I don't think so, no. I don't think they are going to go very far. So, I haven't spent too much time on them.

Mr. LELAND. Let me ask you about the Postal Service automation. Do you think it is progressing at a rate that is sufficient?

Mr. STEVENS. I will ask Mr. Elmore to respond to that too.

Mr. ELMORE. Mr. Leland, I think the progress is now appropriate. As you know, it suffered a setback with the procurement fraud and the criminal actions and got off the track for about a year, but it is back on track.

What I am pleased to see is that they are not taking any shortcuts. I mean, we have always been in favor of testing machines before you buy them. They are testing machines before they buy them. And so, I sort of like the pace myself simply because they are not taking any shortcuts to get where they want to go. If they start taking shortcuts, I'm going to start worrying a little bit.

Mr. LELAND. Postmaster General Frank made an attempt to bring in Ross Perot as a consultant. I thought it was a real sham and a shame that the Postal Service mishandled that situation the way they did because I think they badly need the kind of unbiased, independent assessment of their operations that someone like Ross Perot could have and would have provided. What are your comments or what are your thoughts on this?

Mr. STEVENS. We would agree with that, Mr. Chairman. I think we have been talking about the need to do some very serious cost-cutting within the Service on a broad scale. Ultimately that is the kind of innovations that the Perot organization was going to look at and would have provided.

On the other hand, the contract itself, as written with Perot and as we testified in Senate hearings on some work done at the request of this committee, was very loosely written in some very key particulars. Particularly I would mention the fact that there was no cap on the amount of money Ross Perot could have made out of the deal. As a matter of prudent contracting, we had to find that particular document quite faulty. And I regret that apparently it did kill the relationship altogether because I think that it could have offered some positive things for the Postal Service.

Mr. LELAND. You said that your preference was to address the Postal Service budget issue within the context of the unified Federal budget on a restricted basis. Can you tell me exactly how you would like the Postal Service to appear in such a budget and how you would like to see the Federal budget restructured?

Mr. STEVENS. I could give you an outline of that, Mr. Chairman. I am not a budget structure specialist. We have a good many of them at GAO, and if you would prefer a more lengthy response for the record, we could provide it.

We have done a good deal of analysis of our proposal which is quite a concrete one to restructure the Federal budget on a unified basis. The key from the postal perspective would be its separation of capital investments from operating expenses. And the Postal Service has always said that is the key feature of their own businesslike budget. It is preserved within the proposal we are making for the Federal Government, and we think they should be treated very differently. And when it comes to cutting budgets, there is a great difference between spending money to get an asset that pays returns over years and spending money on operating expenses that is gone once you spend it.

Mr. LELAND. If you will, I would like a detailed response on that, and we will make that a matter of the record.

Mr. STEVENS. We would be glad to provide that.

[The information referred to follows:]

We believe a restructured budget would provide better information to Congressional decision makers and correct the current budget's misleading focus on a single surplus or deficit number. The current structure is misleading for three reasons.

First, there is no distinction in budget totals between capital investments and operating expenses. This perpetuates false economies and leads to unsound deficit reduction strategies. For example, buildings and equipment are leased in cases where purchase could be more economical solely because leasing produces smaller budget numbers in the current year. Providing separate information for capital investments and operating expenses would allow the relative needs of each to be considered when setting deficit targets.

Second, the current budget merges Social Security and other trust funds (currently running annual surpluses) with nontrust funds (currently running annual deficits). This masks the severity of the persistent imbalance between revenues and expenses in the nontrust fund parts of the budget. For example, the reported deficit of $150.4 billion for 1987 would have been $222 billion if not offset by a $72 billion surplus in accounts classified by GAO as trust funds. The reported fiscal year 1988 deficit of $155 billion was similarly masked by almost $100 billion of trust fund surpluses.

Third, the budget's bottom line does not set apart figures for enterprise operations. Unlike most programs for which funding decisions must be made, the enterprises are business-type activities which are generally funded through receipts from

selling products or services to the public. The Postal Service is an example of an enterprise operation. Including the financial results expected from these operations as part of an overall budget calculation, or in the case of Postal Service taking it off-budget, further masks the total dollars needed to fund current operations and capital investments for activities that are not intended to be self-sustaining.

Therefore, we would restructure the budget to separately identify operating and capital requirements under general and trust funds and enterprise operations. This structure is depicted below.

Table 1: Restructured Federal Budget for Fiscal Year 1987

Billions of dollars

	Activities			
Components	General	Trusts	Enterprises	Total
Operating revenues	$573	$326	$59	$958
Operating expenses (net)	736	258	60	1,054
Operating surplus or deficit	$-163	$68	$-1	$-96
Net capital financing requirements	-58	4	0	-54
Unified total financing requirements	$-221	$72	$-1	$-150

In this structure, the Postal Service's financial results would be included in the enterprise column, either as operating revenues and expenses or as capital financing requirements, as appropriate.

A budget restructured in this manner would allow deficit reduction targets to reflect the appropriate balance between short-term consumption needs (operating expenses) and long-term infrastructure and productivity enhancing needs (capital investments).

Mr. LELAND. I would like to turn now to my colleague, Chairman McCloskey.

Mr. MCCLOSKEY. Mr. Chairman, again I want to say you have done an excellent job. I really do not have any further questions. I just want to commend these three gentlemen for their appearance and say that I am looking forward to getting the personnel disciplinary study within a matter of several months. I suspect it is going to show a real avalanche of opportunities for management improvement in the postal system. I have been over this several times with Mr. Elmore and Mr. Stevens, and I really appreciate it.

Mr. ELMORE. I'm looking forward to getting it here.

Mr. LELAND. I want to thank all of you. Mr. Hoglan, they didn't give you much to do today, but we appreciate your coming too. Thank you so much.

Mr. STEVENS. Thank you, sir.

Mr. LELAND. The committee is adjourned.

[Whereupon, at 11:15 a.m., the committee was adjourned.]

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